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ZHONGZHENG INTERNATIONAL COMPANY LIMITED

中證國際有限公司

(Incorporated in Bermuda with limited liability)

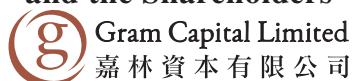
(Stock code: 943)

**VERY SUBSTANTIAL DISPOSAL AND
CONNECTED TRANSACTION
IN RELATION TO THE DISPOSAL OF
ALL THE EQUITY INTEREST IN
HONG KONG ZHONGZHENG CITY INVESTMENT LIMITED AND
SHAREHOLDER'S LOANS DUE FROM
SHENZHEN ZHONGZHENG RUIFENG MANAGEMENT
COMPANY LIMITED**

Financial adviser to the Company



**Independent financial adviser to the Independent Board Committee
and the Shareholders**



THE DISPOSAL AGREEMENT

On 6 May 2024 (after trading hours), the Company, GPI (a direct wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement for the purpose of realigning the Group's business and relieving the Group from the burden of the debt-ridden Disposal Group on the overall financial position of the Group. The salient terms of the Disposal Agreement are as follows:

- (i) GPI selling to the Purchaser the Sale Shares, which represent the entire equity interest in the Disposal Company, for a consideration of approximately HK\$53.7 million, which shall be satisfied by the Purchaser by offsetting against the outstanding interest accrued on the Shareholder's Loans owed by the Company to him up to the date of the Disposal Agreement on a dollar for dollar basis;

- (ii) the Company selling to the Purchaser the Sale Loans (which are unsecured), which represent the aggregate amount (including principal and interest) owed by Ruifeng (an indirect wholly-owned subsidiary of the Disposal Company) to the Company for a nominal cash consideration of HK\$1; and
- (iii) subject to and upon Completion, the Purchaser extending the repayment date of the principal of the Shareholder's Loans (which are unsecured) (plus accrued interest) from 31 December 2024 to 31 December 2027.

The Disposal Group is engaged in property development in the PRC, namely the Dongguan Project and the Nanjing Project. The Disposal Group also holds a 42.5% equity interest in Chengde Jinyu, which in turn holds a 90% equity interest in Chengde Development. Chengde Development is principally engaged in primary land development in the Luanping County, Chengde City, the PRC, namely the Luanping Project. Through its subsidiaries, Chengde Development also holds three pieces of land in the Luanping County.

Upon Completion, the Group will have divested all its interests in the Disposal Group, hence all its existing property projects in the PRC. The Disposal Company will cease to be a subsidiary of the Company and the financial results, assets and liabilities of the members of the Disposal Group will no longer be consolidated into the financial statements of the Group.

After Completion, the Remaining Group will be principally engaged in the manufacturing and trading of healthcare and household products, the coal mining business and the money lending business, and hold an investment in a property development project in Malaysia. The healthcare and household business will be the primary revenue source of the Remaining Group. Please refer to the section headed "Businesses of the Remaining Group" below for details.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under Rule 14.07 of the Listing Rules exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

As the Purchaser is a non-executive Director and a substantial Shareholder of the Company, and therefore a connected person of the Company pursuant to the Listing Rules, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all independent non-executive Directors has been established to advise the Shareholders as to (i) whether the terms of the Disposal are fair and reasonable; (ii) whether the Disposal is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Disposal is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Disposal. Gram Capital Limited has been appointed as the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Shareholders in the same regard.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder. The Purchaser and his associates are required under the Listing Rules to abstain from voting on the resolution approving the Disposal at the SGM.

A circular containing, among other things, (a) further information in relation to the Disposal; (b) the recommendation from the Independent Board Committee in respect of the Disposal Agreement and the transactions contemplated thereunder; (c) the letter of advice of the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Disposal Agreement and the transactions contemplated thereunder; (d) the financial information of the Disposal Group; (e) the pro forma financial information of the Remaining Group; (f) the Valuation Reports; and (g) other information as required under the Listing Rules, together with a notice of the SGM, will be despatched to the Shareholders on or before 30 June 2024, which is more than 15 Business Days from the date of this announcement in order to allow sufficient time for the Company to prepare necessary information for inclusion in the circular.

INTRODUCTION

The Board is pleased to announce that on 6 May 2024 (after trading hours), the Company, GPI (a direct wholly-owned subsidiary of the Company) and the Purchaser entered into the Disposal Agreement for the purpose of realigning the Group's business and relieving the Group from the burden of the debt-ridden Disposal Group on the overall financial position of the Group. The salient terms of the Disposal Agreement are as follows:

- (i) GPI selling to the Purchaser the Sale Shares, which represent the entire equity interest in the Disposal Company, for a consideration of approximately HK\$53.7 million, which shall be satisfied by the Purchaser by offsetting against the outstanding interest accrued on the Shareholder's Loans owed by the Company to him up to the date of the Disposal Agreement on a dollar for dollar basis;
- (ii) the Company selling to the Purchaser the Sale Loans (which are unsecured), which represent the aggregate amount (including principal and interest) owed by Ruifeng (an indirect wholly-owned subsidiary of the Disposal Company) to the Company for a nominal cash consideration of HK\$1; and
- (iii) subject to and upon Completion, the Purchaser extending the repayment date of the principal of the Shareholder's Loans (which are unsecured) (plus accrued interest) from 31 December 2024 to 31 December 2027.

The Disposal Company is a special purpose vehicle with its principal business in investment holding. Through a directly held 100% subsidiary, the Disposal Company holds the entire equity interest in Ruifeng, which in turn holds several other wholly/non-wholly owned subsidiaries. Through the major subsidiaries, the major investment holdings of Ruifeng include (i) 100% equity interest in the Dongguan Project Company (which is the developer of the Dongguan Project), (ii) 51% equity interest in the Nanjing Project Company (which is the developer of the Nanjing Project) and (iii) 100% equity interest in Fengda, which in turn holds 42.5% equity interest in Chengde Jinyu. Chengde Jinyu in turn holds 90% equity interest in Chengde Development, which is the developer of the Luanping Project and indirect owner of certain property and land interests in the Luanping area, the PRC. In addition to the abovementioned members of the Disposal Group, there are a few other subsidiaries in the Disposal Group, which are basically dormant and/or have not commenced business and have no material assets as at 31 December 2023. Please refer to the section headed "Information of the Disposal Group" for the simplified group structure of the Disposal Group.

Other than the funding from the Company as its ultimate shareholder, the Disposal Group had funded its operations with substantial borrowings. Due to the extremely difficult business environment in the midst of the strenuous credit crunch in the PRC property market, the Disposal Group has incurred significant losses during the past few years. For the 18 months ended 30 June 2022, the 12 months ended 30 June 2023 and the six months ended 31 December 2023, the Disposal Group recorded unaudited consolidated losses of approximately HK\$156.7 million, HK\$182.9 million and HK\$908.5 million, respectively. As at 31 December 2023, the Disposal Group recorded unaudited consolidated net liabilities attributable to its owners of approximately HK\$189.1 million. As at 31 December 2023, the liabilities of the Disposal Group included loans and amount owed by Ruifeng to the Company (i.e. the Sale Loans) in the aggregate amount of approximately HK\$176.2 million. Pursuant to the terms of the Disposal Agreement, the Group will sell the Sale Shares and the Sale Loans to the Purchaser. Upon Completion, the Group will have divested all its interests in the Disposal Group, hence all its existing property projects in the PRC. The Disposal Company will cease to be a subsidiary of the Group and the financial results, assets and liabilities of the members of the Disposal Group will no longer be consolidated into the financial statements of the Group. Details of the financial effects of the Completion will be described further in this announcement below.

Pursuant to the Disposal Agreement, the Purchaser has also agreed to extend the repayment date of the two unsecured interest-bearing Shareholder's Loans owed by the Company to him from 31 December 2024 to 31 December 2027, subject to and upon Completion, with the intent to alleviate the liquidity pressure of the Group by end of the current year. The principal and all accrued interest of the Shareholder's Loans will be repayable by a bullet payment on the extended repayment date. This will benefit the Group in retaining more financial resources for its business operations and development.

The principal terms of the Disposal Agreement are set out below.

THE DISPOSAL AGREEMENT

Date: 6 May 2024

Parties: (i) GPI, a direct wholly-owned subsidiary of the Company, as seller of the Sale Shares;

(ii) the Company, as seller of the Sale Loans; and

(iii) the Purchaser, as buyer of the Sale Shares and the Sale Loans.

The Purchaser is a non-executive Director and a substantial Shareholder holding 1,569,420,951 Shares, representing approximately 12.24% of the issued share capital of the Company as at the date of this announcement. Accordingly, the Purchaser is a connected person of the Company under the Listing Rules.

Assets to be disposed of

GPI conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Shares free from all encumbrances as at Completion together with all rights attached thereto, including all dividends and distributions declared, made or paid on or after Completion. The Sale Shares represent the entire issued share capital of the Disposal Company as at the date of the Disposal Agreement.

The Company conditionally agreed to sell, and the Purchaser conditionally agreed to acquire, the Sale Loans free from all encumbrances as at Completion together with all rights, benefits and interest attached thereto. The Sale Loans are unsecured and represent the total loans and amount owed by Ruifeng to the Company amounting to approximately HK\$176.2 million as at 30 June 2023 and up to the date of the Disposal Agreement, and comprising (i) shareholder's loans granted by the Company to Ruifeng in 2020 in the aggregate principal amount of approximately HK\$139.1 million which was interest bearing at the rate of 7% per annum until 30 June 2023 when the Company waived all interest obligations of Ruifeng which might otherwise arise from then onwards on the principals of the Sale Loans; (ii) the interest accrued on the principal of the Sale Loans from date of grant up to 30 June 2023 in the aggregate amount of approximately HK\$35.1 million; and (iii) an amount due from Ruifeng to the Company under current account of approximately HK\$2.0 million which is not interest bearing. There has been no change in the aggregate sum of the Sale Loans from 30 June 2023 and up to the date of the Disposal Agreement, and it is not expected that there will be any change before Completion.

Consideration

Sale Shares Consideration

The consideration for the Sale Shares is approximately HK\$53.7 million. As at the date of the Disposal Agreement, the Company owed to the Purchaser the Shareholder's Loans in the aggregate principal amount of HK\$250 million, plus accrued and unpaid interest thereon (i.e. the Shareholder's Loans Accrued Interest) of approximately HK\$53.7 million. At Completion, the Purchaser shall satisfy the Sale Shares Consideration by offsetting against the Shareholder's Loans Accrued Interest on a dollar for dollar basis. For the avoidance of doubt, there will be no actual transfer of money from the Purchaser to GPI at Completion in respect of the Sale Shares Consideration.

The Sale Shares Consideration has been agreed between the Company and the Purchaser after arm's length negotiations having considered the financial results of the Disposal Group in recent years, the financial position of the Disposal Group, and the independent valuation of the equity value of the Disposal Company and the independent valuation of the property interests held by the Disposal Group and its 42.5% investee company, namely the Chengde Jinyu Group (further details of which is more particularly described in the section headed "Valuation of the Disposal Company" below) as further described below.

Based on the unaudited management accounts of the Disposal Group, the Disposal Group recorded unaudited losses after taxation of approximately HK\$156.7 million, HK\$182.9 million and HK\$908.5 million for the 18 months ended 30 June 2022, the 12 months ended 30 June 2023 and the six months ended 31 December 2023, respectively. On the financial position aspect, as at 31 December 2023, the Disposal Group was in a net liabilities position attributable to its owners amounting to approximately HK\$189.1 million (the "**Disposal Group Net Liabilities Position**"). The Disposal Group Net Liabilities Position takes into account the Sale Loans owed by Ruifeng to the Company, which had been used to fund the operations of the Disposal Group. In this regard, had the Sale Loans been contributed to the Disposal Group as equity and accounted for as equity instead of liabilities for the purpose of calculating the Disposal Group Net Liabilities Position, the adjusted consolidated financial position of the Disposal Group would be in the negative of approximately HK\$12.9 million (the "**Adjusted Disposal Group Net Liabilities Position**"). In light of the above, the Sale Shares Consideration of approximately HK\$53.7 million exceeds the Adjusted Disposal Group Net Liabilities Position by absolute value of approximately HK\$66.6 million.

The Company has engaged the Valuer to conduct a valuation on the equity value of the Disposal Company (i.e. the Sale Shares) as at 31 December 2023. It is noted that the Valuer has appraised that the Sale Shares were of no commercial value as at 31 December 2023 as the attributable equity value to owners of the Disposal Company is a negative amount. Further information on the Sale Shares Valuation (including the valuation approaches and methods, and key inputs and assumptions) is set out in the section headed "Valuation of the Disposal Company" below.

Having considered the Adjusted Disposal Group Net Liabilities Position of approximately HK\$12.9 million and that the Sale Shares had been appraised at no commercial value by the Valuer as at 31 December 2023, the Company is of the view that any amount of positive consideration for the Sale Shares is in the interests of the Company and the Shareholders as a whole. In light of the above, the Company and the Purchaser arrived at the Sale Shares Consideration through arm's length negotiations with reference to the Shareholder's Loans Accrued Interest, which was approximately HK\$53.7 million as at the date of the Disposal Agreement.

Sale Loans Consideration

The consideration for the Sale Loans is at a nominal value of HK\$1 and shall be payable by the Purchaser to the Company in cash at Completion.

The Sale Loans Consideration was determined after arm's length negotiations between the Company and the Purchaser. In light of the Adjusted Disposal Group Net Liabilities Position of the Disposal Group was in deficit in the magnitude of approximately HK\$12.9 million as at 31 December 2023, and the significant accumulated losses recorded by the Disposal Group up to 31 December 2023 as referred to above, the Company and the Purchaser are of the view that the recovery of the Sale Loans by the Company in the near future is remote. In essence, the Sale Loans had been provided by the Company to the Disposal Group as its ultimate shareholder to fund its operations. The Company and the Purchaser have regarded the Sale Loans a form of quasi capital in nature, which have been taken into account by the parties in arriving at the Sale Shares Consideration. Under the circumstances, the Company and the Purchaser have agreed the Sale Loans Consideration to be at a nominal value of HK\$1.

Extension of the Shareholder's Loans

As at the date of the Disposal Agreement, the Company owed to the Purchaser Shareholder's Loan A in the principal amount of HK\$20 million and Shareholder's Loan B in the principal amount of HK\$230 million, both of which are unsecured. Shareholder's Loan A and Shareholder's Loan B were granted by the Purchaser to the Company in August 2019 (for an initial term of 24 months) and in November 2019 (for an initial term of 60 days), respectively. The Shareholder's Loans are interest bearing at the rate of 2.2% per annum (in respect of Shareholder's Loan A) and 5% per annum (in respect of Shareholder's Loan B). Both Shareholder's Loans had been used by the Group to fund its operations, including that of the Disposal Group. The repayment date of the principals and accrued interests of each of the Shareholder's Loans has been extended with the present due date falling on 31 December 2024, respectively. As at the date of the Disposal Agreement, the Shareholder's Loans Accrued Interest amounted to approximately HK\$53.7 million.

Subject to and upon Completion, the Purchaser will enter into a loan extension letter with the Company to extend the repayment dates of the principal of each of the Shareholder's Loans from 31 December 2024 to 31 December 2027, and all interest to be accrued on the Shareholder's Loans from 7 May 2024, being the date immediately after the date of the Disposal Agreement, up to and including 31 December 2027 will be payable by the Company by a bullet payment on the same repayment date as the principal. All other terms of the Shareholder's Loans are terms customary to agreements of their type (including but not limited to security (no security in the case of the Shareholder's Loans), interest rates, the Company's right of early repayment and events of default) and will remain the same as before the extension of the repayment dates.

In the event that Completion does not take place, the repayment date of the Shareholder's Loans will remain to be on 31 December 2024. In such event, the Company will consider alternative options and resources available to address the repayment of the Shareholder's Loans when they become due.

Conditions precedent

Completion will be conditional on the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the Company having obtained the approval of the necessary ordinary resolution(s) for approving the Disposal Agreement and the transactions contemplated thereunder by the Independent Shareholders at the SGM;
- (ii) GPI having obtained all requisite authorisation, consent and approval from the relevant banks, regulatory authorities and/or other third parties in respect of the Disposal Agreement and the transactions contemplated thereunder (including but not limited to the disposal of the Sale Shares), and such authorisation, consent and approval remain valid and not having been subsequently revoked, if applicable;
- (iii) the Company having obtained all requisite authorisation, consent and approval from the relevant banks, regulatory authorities and/or other third parties in respect of the Disposal Agreement and the transactions contemplated thereunder (including but not limited to the disposal of the Sale Loans), and such authorisation, consent and approval remain valid and not having been subsequently revoked, if applicable;
- (iv) the Purchaser having obtained all requisite authorisation, consent and approval from the relevant banks, regulatory authorities and/or other third parties in respect of the Disposal Agreement and the transactions contemplated thereunder (including but not limited to the acquisition of the Sale Shares and the Sale Loans), and such authorisation, consent and approval remain valid and not having been subsequently revoked, if applicable;
- (v) the Purchaser being reasonably satisfied that there has been no material adverse change in respect of the Disposal Group since the date of the Disposal Agreement;
- (vi) the representations, warranties and statements given by the Company and GPI under the Disposal Agreement remaining true, accurate, and not misleading in all material aspects since the date of the Disposal Agreement up to the Completion Date; and the Company and GPI having complied with all the relevant obligations and not having breached any terms under the Disposal Agreement up to the Completion Date;

- (vii) the representations, warranties and statements given by the Purchaser under the Disposal Agreement remaining true, accurate and comprehensive, and not misleading in all material aspects since the date of the Disposal Agreement up to the Completion Date; and the Purchaser having complied with all the relevant obligations and not having breached any terms under the Disposal Agreement up to the Completion Date; and
- (viii) the parties to the Disposal Agreement not having been notified by the Stock Exchange or other relevant regulatory authorities that the transactions contemplated under the Disposal Agreement (including but not limited to the disposal of the Sale Shares and the Sale Loans) would result in any party to the Disposal Agreement failing to comply in full with the requirements under all applicable laws and regulations (including but not limited to the duties and obligations required under the Listing Rules or other applicable laws and regulations).

The Purchaser may from time to time waive any of the conditions set out in (v) and (vi) above by notice in writing. The Company or GPI may from time to time waive the condition set out in (vii) above by notice in writing. Save for the aforementioned, none of the conditions set out above are capable of being waived by either party to the Disposal Agreement.

If any of the above conditions have not been fulfilled or waived (as the case may be) on or before 30 September 2024 (or such later date as the parties may agree in writing), the Disposal Agreement shall lapse automatically and neither party shall have any obligations and liabilities or any claims towards each other thereunder save for any antecedent breaches of the Disposal Agreement.

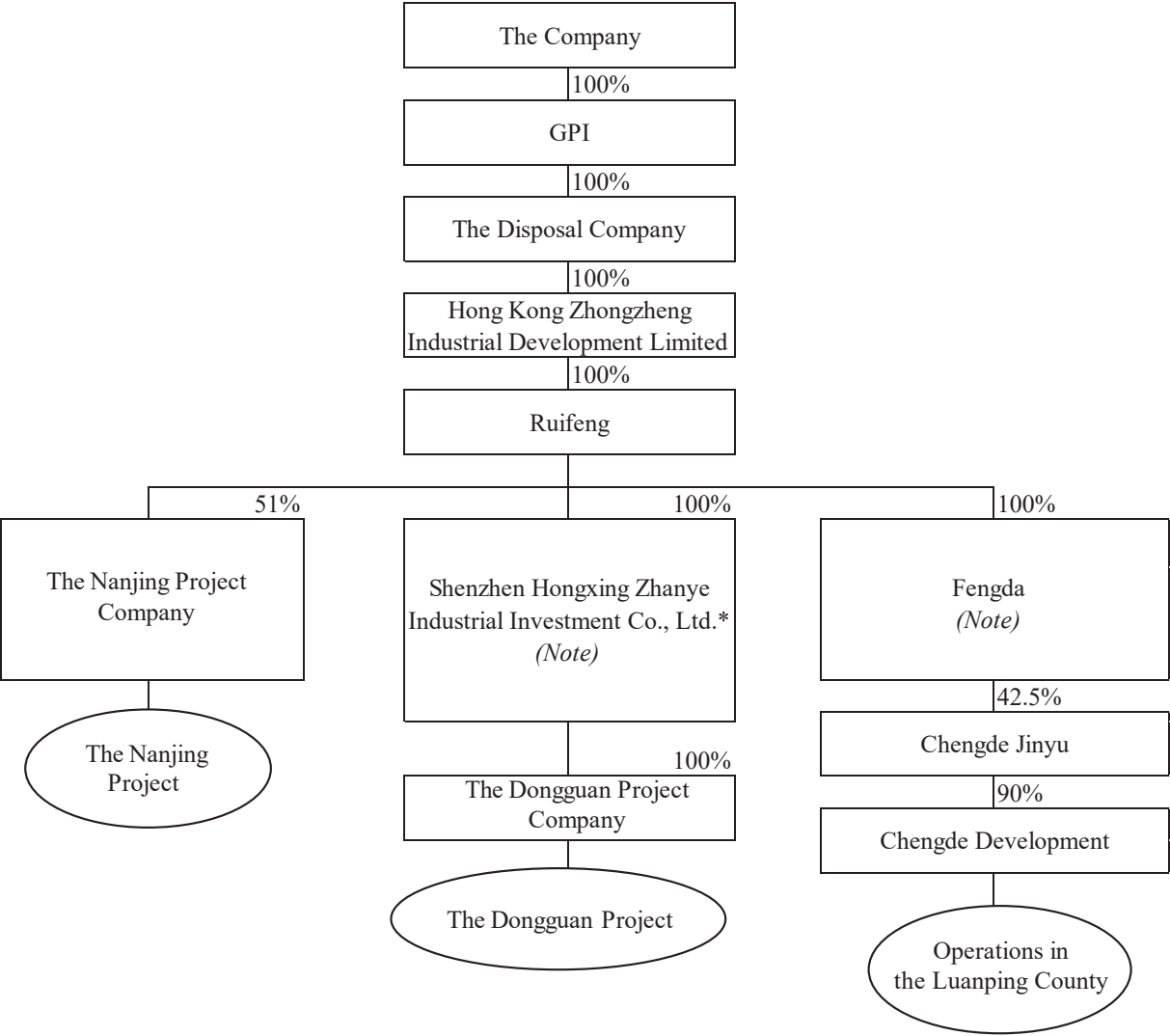
Completion

Completion will take place on the third Business Day after fulfilment or waiver (as the case may be) of all of the conditions precedent to the Disposal Agreement, or such other date as the parties to the Disposal Agreement may agree in writing.

INFORMATION OF THE DISPOSAL GROUP

Group structure

Set out below is a simplified group structure of the Disposal Group, including subsidiaries and associates with substantive operations and material assets:



* For identification purpose only

Note: These companies are primarily investment holding companies. Apart from holding investments in their subsidiaries or associates, these companies have no other material business operations.

Principal businesses

The principal businesses of the Disposal Group are as follows:

Operation of property development in the PRC

The Disposal Company is an investment holding company established in the BVI with limited liability. Its principal operating subsidiaries are engaged in property development in the PRC, namely the Dongguan Project and the Nanjing Project.

Investment in Chengde Jinyu

The Disposal Company also holds a 42.5% equity interest in Chengde Jinyu, which in turn holds a 90% equity interest in Chengde Development. Chengde Development is principally engaged in primary land development in the Luanping County, Chengde City, the PRC, namely the Luanping Project. Through its subsidiaries, Chengde Development also holds three pieces of land in the Luanping County.

Further information on the principal subsidiaries of the Disposal Group and the Chengde Jinyu Group is set out below.

Property development in the PRC

The Dongguan Project and the Nanjing Project are the two property development projects engaged by the Disposal Group directly.

The Dongguan Project

The Disposal Group is the developer of the Dongguan Project through its 100% indirect equity interest in the Dongguan Project Company. The Dongguan Project is called CITIC•Cloud Courtyard* (中證•雲庭) and is located in the Nancheng District, Dongguan City, the PRC. It is a small-scale property development project which comprises two composite buildings comprising 242 residential units and 72 commercial units with saleable GFA of approximately 23,280 sq. m. and 4,969 sq. m., respectively, and 178 car parking spaces in a two-storey carpark basement. Transferrable real estate ownership certificates have been obtained for the aforesaid units and car parking spaces, except for 68 car parking spaces (the “**Leasehold Car Spaces**”). The Leasehold Car Spaces include 58 car parking spaces reserved for civil air defense (人民防空車位) and 10 spaces reserved for small vehicles. Under the relevant laws and regulations in the PRC, the real estate ownership certificates will not be granted to the developers by the government in respect of the Leasehold Car Spaces. However, the Dongguan Project Company has the right to use the premises and the right to income generated by this premises.

Pre-sale of the residential units of the Dongguan Project began in November 2020. The construction of the Dongguan Project was completed by July 2022 and the project was granted completion acceptance certificates subsequently. Revenue generated from sales of the units sold are recorded by the Dongguan Project Company upon delivery of the properties to buyers. In this connection, majority of which deliveries occurred during the year ended 30 June 2023.

Despite its prime location, the project has been facing challenges in sales due to the economic turmoil resulting from the Covid-19 pandemic and the unfavourable real estate market conditions in the surrounding area. As at 31 December 2023, all the commercial units and the car parking spaces (for which the Dongguan Project Company has real estate ownership certificates) remained unsold, two residential units were contracted for sale but not yet completed and 22 residential units were available for sale. By mid-January 2024, one more residential unit was contracted for sale. In late-January 2024 and in March 2024, one commercial unit and a further residential unit were contracted for sale, respectively. As at the date of this announcement, sale of the said five residential/commercial (as the case may be) units contracted for sale during the current year is yet to be completed.

For the 12 months ended 30 June 2023 and the six months ended 31 December 2023, the Dongguan Project Company recorded revenue from sales upon delivery of the residential units of approximately HK\$697.2 million and HK\$36.5 million, respectively. As at 31 December 2023, the Dongguan Project Company recorded unaudited net assets of approximately HK\$61.8 million, with assets including properties held for sales of approximately HK\$170.6 million, amount due from Chengde Jinyu of approximately HK\$95.2 million and other assets of approximately HK\$21.2 million, as well as with liabilities including land appreciation tax payable of approximately HK\$130.7 million, trade and other payable of approximately HK\$72.0 million and other liabilities of approximately HK\$22.5 million.

In determining the carrying value of the properties held for sales of the Dongguan Project Company as at 31 December 2023, the Company has taken into account a preliminary valuation as at 31 December 2023 by the Valuer on (i) the market value of the 21 residential units not yet contracted for sale by mid-January 2024; (ii) the market value of all the 72 commercial units; (iii) the market value of 110 car parking spaces held for sale; and (iv) the investment value of the Leasehold Car Spaces (together the “**Dongguan Valuation Properties**”). Due to the cut-off time for determining the subject properties for the preliminary valuation for the purpose of preparing the financial statements of the Dongguan Project Company as at 31 December 2023, such commercial unit and residential unit contracted for sale after mid-January 2024 were treated as unsold properties of the Dongguan Project and were included in the Dongguan Valuation Properties. No valuation had been conducted for those premises that have been contracted for sale but not yet completed by mid-January 2024.

The Valuer has adopted the market approach and, on a preliminary basis, appraised that the market value of the Dongguan Valuation Properties (except for the Leasehold Car Spaces) as at 31 December 2023 to be approximately RMB159.5 million (equivalent to approximately HK\$176.2 million). The Valuer has ascribed no commercial value to the Leasehold Car Spaces due to the absence of real estate ownership certificates. However, given that the Dongguan Project Company has the right to use of and right to income generated by the Leasehold Car Spaces, the Valuer has evaluated the investment value of the Leasehold Car Spaces using the income approach to assess the worth of the Leasehold Car Spaces for investment purpose as at 31 December 2023 and had come to a preliminary valuation of investment value of the Leasehold Car Spaces as at 31 December 2023 to be at approximately RMB12.2 million (equivalent to approximately HK\$13.5 million). Further information on the valuation of the Dongguan Valuation Properties is set out in the section headed “Valuation of the Disposal Company” below.

The carrying value of the properties held for sales of the Dongguan Project Company as at 31 December 2023 of approximately HK\$170.6 million (equivalent to approximately RMB154.5 million) was determined based on the sum of (i) the preliminary valuation of (a) the market value of the Dongguan Valuation Properties (except for the Leasehold Car Spaces) as at 31 December 2023 of approximately RMB159.5 million (equivalent to approximately HK\$176.2 million), and (b) the investment value of the Leasehold Car Spaces as at 31 December 2023 of approximately RMB12.2 million (equivalent to approximately HK\$13.5 million); and (ii) the actual selling price of the three residential units contracted for sale by mid-January 2024 in the aggregate amount of approximately RMB6.3 million (equivalent to approximately HK\$7.0 million), and then deducted by (iii) the relevant tax applicable to sales of properties and selling expenses in the aggregate amount of approximately RMB23.5 million (equivalent to approximately HK\$26.1 million).

The Nanjing Project

The Disposal Group holds 51% equity interest in the Nanjing Project Company, which is the developer of the Spring Breeze* (泉悦春风) project in the Naishan ecological scenic area of Long Pao New City, Jiangbei New Area, Nanjing City, the PRC. This project is a large-scale property development project designed to build in three phases, encompassing low-rise residential units, commercial buildings, hotel and other ancillary facilities. The total GFA of the project is approximately 340,000 sq. m.

In June 2020, the Nanjing Project Company commenced the pre-sale of residential units for phase one of the project. However, the construction work for phase one has been suspended since August 2022 due to insufficient funding. Prior to the work suspension, the Nanjing Project Company had pre-sold 39 residential units representing approximately 14.4% of the total saleable GFA of the phase-one residential units with receipt in advance of approximately RMB140.4 million. Despite the temporary suspension, the Nanjing Project Company is endeavoring to resume construction work for phase one as soon as possible.

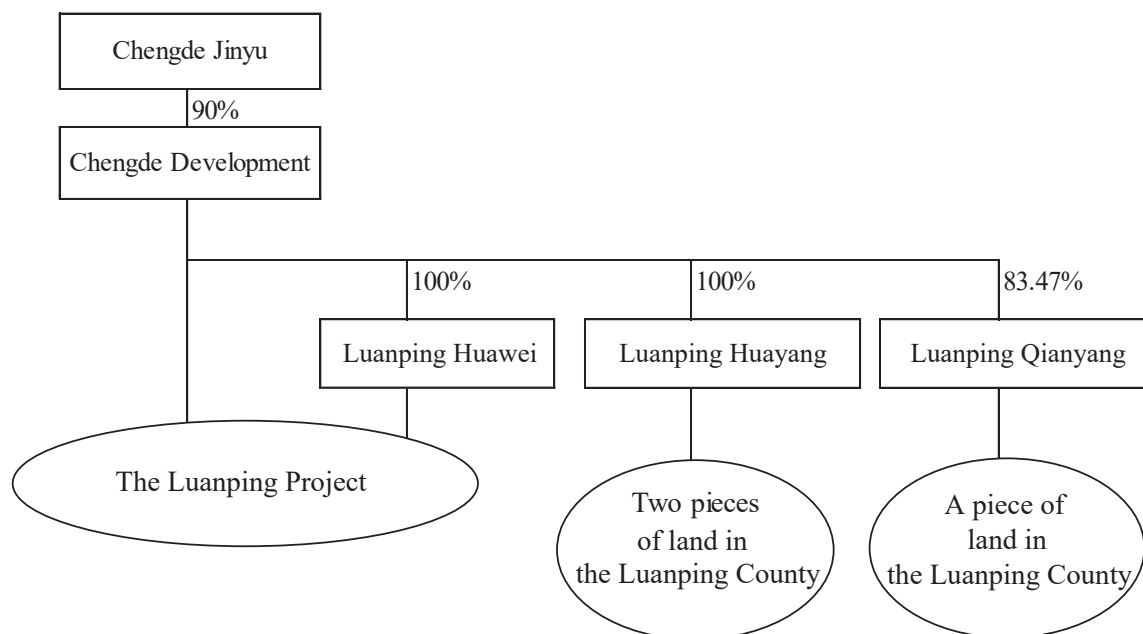
The operations of the Nanjing Project Company were primarily funded by bank and other borrowings. The Nanjing Project Company has defaulted on the scheduled settlement of a bank loan in the principal amount of approximately RMB319.7 million since October 2022. The bank loan was secured by the properties interests held by the Nanjing Project Company and the entire equity interest in the Nanjing Project Company (including the 51% held by the Disposal Group). As at 31 December 2023, the outstanding interest and default penalty charge on the said bank loan amounted to approximately HK\$89.4 million and HK\$35.3 million, respectively. The Group had been engaging in negotiations with the bank on the repayment plan, however, no agreement has been reached thus far. Other financing had been sought by the Group to replace the defaulted bank loan, but to no avail. According to a public notice dated 27 December 2023 issued by 廣州產權交易所 (Guangzhou Enterprises Mergers and Acquisitions Services), the said bank had disposed of the bank loan as non-performing assets. As at the date of this announcement, the Nanjing Project Company has not been notified by any parties of the actions (if any) that may be taken by the purchaser of the said bank loan regarding the securities pledged under the bank loan.

No revenue has been recorded by the Nanjing Project Company since commencement of operation as the Nanjing Project is still under development. As at 31 December 2023, the Nanjing Project Company recorded unaudited net liabilities of approximately HK\$464.6 million, with assets including properties under development for sales of the Nanjing Project of approximately HK\$863.7 million and other assets of approximately HK\$105.2 million, as well as with liabilities including bank and other borrowings in the aggregate amount of approximately HK\$1,044.3 million and trade and other payables of approximately HK\$389.2 million.

In determining the carrying value of the properties under development for sales of the Nanjing Project as at 31 December 2023, the Company has taken into account a preliminary valuation as at 31 December 2023 by the Valuer on such property interest. The Valuer has adopted the market approach and, on a preliminary basis, appraised that the market value of such property interest as at 31 December 2023 to be RMB781.9 million (equivalent to approximately HK\$863.7 million). Further information on the valuation of the property interest in the Nanjing Project is set out in the section headed “Valuation of the Disposal Company” below.

Investment in the Chengde Jinyu Group

As mentioned above, the Disposal Group holds a 42.5% equity interest in Chengde Jinyu, which in turn owns 90% equity interest in Chengde Development. Set out below is a simplified group structure of the Chengde Jinyu Group, including subsidiaries with substantive operations and material assets:



Chengde Jinyu is an investment holding company. Save for its holding of 90% equity interest in Chengde Development, Chengde Jinyu does not have any other material assets. Chengde Development is principally engaged in operation and development of the Luanping Project. Its other assets, held through its subsidiaries, include three pieces of land in the Luanping County.

The Luanping Project

The Luanping Project is a primary land development project in the Luanping County, the PRC. Luanping County is one of the counties under the administration of Chengde City, a prefecture-level city in Hebei Province, situated northeast of Beijing. It is located at the western part of Chengde with a total area of approximately 3,195 sq. km. and is famous for tourist spots such as Jinshanling Great Wall (金山嶺長城).

The Luanping Project was included in the original development plan of the local government in accordance with the then official announcements including 《灤平縣人民政府關於同意<「兩鎮一河」園區產業發展規劃（2016-2030年）>》（“**Agreement for development of Two Town and One River (2016-2030)**”），and 《“兩鎮一河”產業園區總體規劃（2016年-2030年）的批覆》（“**Approval of development of Two Town and One River Scheme (2016-2030)**”）。The “Two Towns and One River” referred to the Bakeshiying Town（巴克什營鎮），the Hushiha Town（虎什哈鎮）and Chaohe River Basin（潮河流域）in Luanping and they are the key components of the “Two Towns and One River” scheme, with a total area of around 426 sq. km.. The local government had planned to develop the area to improve prospect for leisure and tourism and agricultural-eco tourism in Hebei Province. Pursuant to the rezoning plan of the local government in 2016, Chengde Development was engaged by the government to carry out primary land development for the Luanping Project primarily for residential and commercial development land use purpose under a government procurement process. In the course of the Luanping Project, a wholly-owned subsidiary of Chengde Development, namely Luanping Huawei, had been engaged to undertake the development of about 350 settlement apartments（返遷房）built for resettlement of certain local residents whose original dwellings had been cleared for primary land development under the Luanping Project.

The Luanping Project was initially planned to be carried out in two phases. Phase one was planned to cover a development land area of approximately 12,000 mu and be completed within eight-year timeframe（2016 to 2024）. Detailed planning of the second phase of the Luanping Project had not commenced. Pursuant to the agreements entered into with the local government, Chengde Development shall bear the cost of development of the infrastructure, and the government authority is obligated to conduct land sale through auctions once the land is ready and marketable. Chengde Development will then recover its development costs and also receive (i) return on development work calculated based on pre-determined rates of return on the input of the development costs by Chengde Development; and (ii) a share of the net proceeds from the land sales by the local government after deduction of related costs and financing charges.

Since commencement of the Luanping Project in 2016 and up to the date of this announcement, Chengde Development has developed land with an aggregate area of approximately 10,779 mu (the “**CD Developed Land**”). However, to-date, not much of the CD Developed Land has been sold by the local government under government land auctions. By the end of 2018, approximately 449 mu of the CD Developed Land had been sold by the local government by auction. Subsequently in 2019, the local government suspended the operations of all property development projects in Luanping County, including the Luanping Project, to address certain ecological and environmental issues in the area and no land auctions were held for any CD Developed Land in the same year. The government had resumed some land auctions but the sale activities were severely affected and delayed due to the impact of the Covid-19 pandemic and challenges in the real estate market. In 2020, there was only 445 mu in total of CD Developed Land sold under government actions, of which 163 mu are now held by the Chengde Jinyu Group as further described below in the sub-section headed “Land holding by the Chengde Jinyu Group”. Since 2021, except for 6 mu of land assigned to the government as allocated land (劃撥用地) for public utilities use in 2021, no CD Developed Land was successfully sold/put on for land auction by the government. By the date of this announcement, the CD Developed Land that had been sold represents approximately 8.3% of all the CD Developed Land.

In 2022, the Luanping government has launched the “Chaohe River Basin (Luanping Section) Ecological Governance and Rural Revitalisation Integrated Development Project” (潮河流域(灤平段)生態治理與鄉村振興產業融合發展) (the “**EOD Project**”) with the objective of developing the region for different facets of industries, hand in hand with ecological and environmental governance emphasis. It was noted that the tender of the EOD Project has been awarded to a consortium led by a state-owned construction enterprise in January 2024. No detailed information about the implementation plan for the EOD Project is available to the Group yet, however, based on Chengde Development’s preliminary understanding, the EOD Project would involve a significant portion of land developed by Chengde Development, but would be mainly for non-residential and non-commercial use. If the land developed by Chengde Development were to be used for the EOD Project, they may be sold in future land auctions at a price significantly lower than previously estimated based on residential and commercial usage under the Luanping Project. This being the case, on the other hand, there is currently no indication of future land auctions of CD Developed Land by the Luanping government in the near term.

Land holding by the Chengde Jinyu Group

In 2020, Chengde Development, through two then wholly-owned subsidiaries, Luanping Huayang acquired two pieces of land (with a total site area of approximately 63,238 sq. m.) and Luanping Qianyang acquired another piece of land (with a site area of approximately 45,450 sq. m.) under land auction by the government, and they were among the CD Developed Land portfolio, with the view of speeding up the return of funds from the government and seeking opportunity to selling the land to other developers and/or join forces with them to develop the land for sale. In April 2021, Chengde Development disposed of 16.53% equity interest in Luanping Qianyang to a third party. However, Chengde Development was not able to implement or in any way realise the plan of having the three pieces of land developed due to the rapid deterioration of the market conditions during and post Covid-19 pandemic. As at the date of this announcement, the three pieces of land remain vacant. Based on the preliminary valuation as at 31 December 2023 by the Valuer on such property interest, the Valuer has adopted the market approach and appraised that the preliminary market value of such property interests as at 31 December 2023 to be RMB156.4 million (equivalent to approximately HK\$172.8 million), of which approximately RMB148.2 million (equivalent to approximately HK\$163.7 million) is attributable to the Chengde Jinyu Group. Further information on the valuation of the property interests held by the Chengde Jinyu Group is set out in the section headed “Valuation of the Disposal Company” below.

Financial position of the Chengde Jinyu Group

The Chengde Jinyu Group recorded revenue of approximately HK\$14.0 million for the 18 months ended 30 June 2022 (representing the return on development costs and share of land sale proceeds of the Luanping Project), while no revenue was recognised for the 12 months ended 30 June 2023 and the six months ended 31 December 2023. As at 31 December 2023, the Chengde Jinyu Group recorded unaudited consolidated net liabilities of approximately HK\$164.1 million, with assets including contract costs for the Luanping Project of approximately HK\$1,834.7 million, the land held by Luanping Huayang and Luanping Qianyang at the carry value of approximately HK\$279.7 million, trade receivables of approximately HK\$232.3 million and other assets of approximately HK\$121.4 million, as well as with liabilities including borrowings of approximately HK\$1,364.6 million, trade and other payables of approximately HK\$948.6 million, amount due to related companies of approximately HK\$304.5 million and other liabilities of approximately HK\$14.5 million.

Equity value of Chengde Jinyu

In determining the carrying value of the interest in Chengde Jinyu in the Disposal Group’s consolidated financial statements as at 31 December 2023, the Company has taken into account a preliminary valuation on the equity value of Chengde Jinyu as at 31 December 2023 by the Valuer. The Valuer has adopted the summation method under the cost approach which involves the appraisal of the market values of all the assets of the Chengde Jinyu Group and subtract the aggregate liabilities from the aggregate market value of the assets. The Valuer has appraised that the equity value of Chengde Jinyu was of no commercial value as at 31 December 2023 as the attributable equity value to owners of Chengde Jinyu is a negative amount. As a result, an impairment loss of approximately HK\$327.1 million has been recognised for the six months ended 31 December 2023 on the interest in Chengde Jinyu and the carrying value of the interest in Chengde Jinyu in the Disposal Group’s consolidated financial statements as at 31 December 2023 was zero. Further information on the valuation of the equity interest in Chengde Jinyu is set out in the section headed “Valuation of the Disposal Company” below.

Financial information

Financial results

Set out below is the key financial results items extracted from the unaudited consolidated statements of profit or loss of the Disposal Group, which had been (as the case may be) incorporated in the Group's audited consolidated statements of profit or loss for the 18 months ended 30 June 2022 and the 12 months ended 30 June 2023, and the unaudited consolidated statements of profit or loss for the six months ended 31 December 2023. The Group's aforesaid consolidated statement of profit or loss had been prepared in accordance with Hong Kong Reporting Standards ("HKFRS"):

	For the 18 months ended 30 June 2022	For the 12 months ended 30 June 2023	For the six months ended 31 December 2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Revenue	–	697,216	36,494
Gross profit/(loss)	–	212,814	(8,353)
Administrative expenses	(64,657)	(15,954)	(4,522)
Selling and distribution expenses	(4,204)	(33,964)	(975)
Share of results of an associate (<i>Note</i>)	(83,747)	(37,331)	(21,303)
Impairment loss on properties under development for sales	–	–	(405,267)
Impairment loss on interest in an associate (<i>Note</i>)	–	(75,860)	(327,144)
Impairment loss on amount due from an associate (<i>Note</i>)	–	–	(68,093)
Finance costs	(25,168)	(79,520)	(102,237)
Loss before taxation	(156,662)	(16,639)	(932,635)
Income tax credit/(expense)	–	(166,245)	24,093
Loss after taxation	(156,662)	(182,884)	(908,542)

Note: The associate mentioned in the table above refers to Chengde Jinyu.

Revenue

Revenue generated by the Disposal Group during the 12 months ended 30 June 2023 and the six months ended 31 December 2023 represented the sales for residential units of the Dongguan Project recorded upon delivery of the properties to buyers.

Loss after taxation for the 18 months ended 30 June 2022

Loss after taxation of the Disposal Group for the 18 months ended 30 June 2022 amounting to approximately HK\$156.7 million were mainly attributable to (i) the share of loss of Chengde Jinyu of approximately HK\$83.7 million; and (ii) the administrative expenses incurred for the Dongguan Project and the Nanjing Project of approximately HK\$64.6 million. The share of loss of Chengde Jinyu was mainly due to the finance costs incurred for the Luanping Project.

Loss after taxation for the 12 months ended 30 June 2023

Loss after taxation of the Disposal Group for the 12 months ended 30 June 2023 amounting to approximately HK\$182.9 million was mainly attributable to (i) the income tax expense of approximately HK\$166.2 million; (ii) the finance costs of approximately HK\$79.5 million; and (iii) an impairment loss on the interest in Chengde Jinyu of approximately HK\$75.9 million. The loss was partially offset by the gross profit of approximately HK\$212.8 million resulted from the delivery of the Dongguan Project.

A substantial portion of the income tax expense was related to the land appreciation tax of approximately HK\$152.5 million, which was incurred upon recognition of sales for the Dongguan Project.

The finance cost was attributable to the interests on bank and other borrowings of the Dongguan Project and the Nanjing Project.

The impairment loss on the interest in Chengde Jinyu was recognised as the recoverable amount, which was determined to be the value in use of Chengde Jinyu, was lower than its carrying amount. The value in use represents the discounted future cash flow of Chengde Jinyu in its then current condition.

In addition to the above, the loss after taxation of the Disposal Group was also attributable to the selling and distribution expenses of approximately HK\$34.0 million incurred for the Dongguan Project and the share of loss of Chengde Jinyu of approximately HK\$37.3 million.

Loss after taxation for the six months ended 31 December 2023

Loss after taxation of the Disposal Group for the six months ended 31 December 2023 amounting to approximately HK\$908.5 million, which was mainly attributable to (i) an impairment loss on the interest in Chengde Jinyu of approximately HK\$327.1 million and an impairment loss on amount due from Chengde Jinyu of approximately HK\$68.1 million; (ii) an impairment loss on the properties under development for sales of approximately HK\$405.3 million; and (iii) the finance cost of approximately HK\$102.2 million.

The impairment loss on the interest in Chengde Jinyu was recognised, as the recoverable amount (which was determined to be the fair value less costs of disposal as preliminarily assessed by the Valuer) of Chengde Jinyu was lower than its carrying amount. In addition, the impairment loss on the amount due from Chengde Jinyu (which is calculated based on (i) the total current assets held by the Chengde Jinyu Group; multiplied by (ii) the ratio of the amount due from Chengde Jinyu to the total current liabilities of the Chengde Jinyu Group as at 31 December 2023) was recognised as Chengde Jinyu is not expected to have sufficient assets to service its debts.

The impairment loss on the properties under development for sales was recognised, as the property interests in the Nanjing Project as at 31 December 2023 was determined to be lower than its carrying amount based on the preliminary valuation. In addition, the write-down of properties held for sales of approximately HK\$9.6 million was recognised as cost of sales, as the preliminary valuation of the property interests in the Dongguan Project as at 31 December 2023 was determined to be lower than its carrying amount.

Further information on the valuation of (i) the equity interest in Chengde Jinyu; (ii) the market value of the properties under development for the Nanjing Project; and (iii) the market value of the Dongguan Valuation Properties is set out in the section headed “Valuation of the Disposal Company” below.

The finance cost was attributable to the interests on bank and other borrowings, including the default charge and penalty interest in relation to the Nanjing Project.

Assets and liabilities

Set out below is a breakdown of the unaudited assets and liabilities of the Disposal Group extracted from the published consolidated financial statements of the Group as at 30 June 2023 and 31 December 2023:

	As at 30 June 2023 (HK\$'000)	As at 31 December 2023 (HK\$'000)
Assets		
Properties under development for sales	1,249,032	863,692
Properties held for sales	211,636	170,642
Interest in an associate (<i>Note</i>)	347,610	–
Amount due from an associate (<i>Note</i>)	292,616	235,057
Trade and other receivables	91,977	102,711
Cash and bank balances	36,475	35,820
Other assets	715	732
	<u>2,230,061</u>	<u>1,408,654</u>
Liabilities		
Borrowings	1,036,753	1,058,909
The Sale Loans	176,318	176,165
Trade and other payables	181,936	297,065
Contract liabilities	197,732	173,765
Current tax liabilities	131,100	139,329
Other liabilities	34,572	3,889
	<u>1,758,411</u>	<u>1,849,122</u>
Net assets/(liabilities)		
<i>Attributable to:</i>		
– Owners of the Disposal Company	483,244	(189,073)
– Non-controlling interest	(11,594)	(251,395)
	<u>471,650</u>	<u>440,468</u>

Note: The associate mentioned in the table above refers to Chengde Jinyu.

As at 31 December 2023, the total liabilities of the Disposal Group exceeded its total assets, resulted in unaudited consolidated net liabilities of approximately HK\$440.5 million, with net liabilities attributable to owners of the Disposal Company amounted to approximately HK\$189.1 million.

The principal assets of the Disposal Group mainly comprised properties under development for sales of the Nanjing Project, the properties held for sales of the Dongguan Project, the interest in and amount due from Chengde Jinyu.

The carrying values of the properties under development for sales of the Nanjing Project and the properties held for sales of the Dongguan Project as at 31 December 2023 were determined based on preliminary valuation assessed by the Valuer. Further information on the valuation of the property interests in the Nanjing Project and the Dongguan Project is set out in the section headed “Valuation of the Disposal Company” below.

The interest in Chengde Jinyu was fully impaired as at 31 December 2023 after assessment of its recoverable amount based on fair value less costs of disposal as preliminarily assessed by the Valuer. The amount due from Chengde Jinyu as at 31 December 2023 represented the balance after impairment. Please refer to the profit or loss section above for details of the impairment losses. Further information on the valuation of the equity interest of Chengde Jinyu is set out in the section headed “Valuation of the Disposal Company” below.

The liabilities of the Disposal Group mainly comprised bank and other borrowings for the Nanjing Project and the Sale Loans. All bank and other borrowings were overdue as at 31 December 2023.

The accrued interests (including default charge and penalty interests) of approximately HK\$180.7 million is included in the trade and other payables. The increase in trade and other payables as at 31 December 2023 was mainly attributable to the recognition of the default charge and penalty interests of the defaulted bank loan of the Nanjing Project in the aggregate amount of approximately HK\$86.1 million.

Other major liabilities of the Disposal Group are contract liabilities and current tax liabilities. The contract liabilities mainly represented receipt in advance for pre-sale of the Nanjing Project. The decrease in the balance as at 31 December 2023 as compared to that as at 30 June 2023 was mainly due to the reclassification of a receipt in advance unrelated to the Nanjing Project in the amount of RMB20 million (equivalent to approximately HK\$22.1 million) under a cooperation agreement to other payable upon the lapse of the cooperation agreement. The current tax liabilities of approximately HK\$139.3 million as at 31 December 2023 mainly represented land appreciation tax payable for the sales of the Dongguan Project of approximately HK\$130.7 million, which will be payable when more than 85% of the project’s total saleable area, including residential units, commercial units, and parking spaces, has been sold.

The financial statements of the Disposal Group will be included in the circular to be despatched to the Shareholders in relation to the Disposal.

VALUATION OF THE DISPOSAL COMPANY

The Valuer was engaged by the Company to conduct a valuation of the equity interest of the Disposal Company as of 31 December 2023 (i.e. the Sale Shares Valuation). The group structure of the Disposal Company is set out in the section headed “Information of the Disposal Group” above.

The Board has obtained and reviewed the information of the Valuer and the persons in charge of the valuations, and noted that (i) the Valuer is an experienced valuation firm with licensed and certified valuation advisory specialists and has a strong track record having served over 5,000 cases covering a wide range of industries and more than 300 listed companies and projects around the world; and (ii) the persons in charge of the business and property valuations have (a) over 10 years of valuation and corporate advisory experience and served listed companies for initial public offering, merger and acquisition and financial reporting purposes; and (b) over 18 years of experience in real estate appraisal and consulting businesses worldwide and particularly familiar with assets in Hong Kong, Macau, China and Asia Pacific Rim, respectively. Based on the above, the Board considers that the Valuer is competent and has sufficient qualification, reputation and adequate resources to perform its role. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Valuer is independent of the Company and the Purchaser, and their respective connected persons.

There are three generally accepted valuation approaches, namely the market, cost and income approaches. To select the most appropriate approach, the Valuer has considered the relative advantages and disadvantages of each approach having regard to the nature and circumstances of the Disposal Company. For the purpose of the Sale Shares Valuation, the Valuer considers that (i) the income approach is inappropriate as this approach requires detailed operational information and long-term financial projections of the Disposal Company but such information is not available; and (ii) the market approach is inappropriate as there are insufficient relevant comparable transactions to form a reliable basis for the valuation. The Disposal Company is the holding company of a number of subsidiaries which possess material assets and liabilities relating and incidental to their respective businesses as described in the section headed “Principal Businesses” above. On this note, the Valuer has therefore adopted summation method under the cost approach in forming an opinion on the equity value of the Disposal Company.

The summation method under the cost approach involves the appraisal of the market values of all the assets of the Disposal Group and subtract the aggregate liabilities from the aggregate market value of the assets. To this end, the assets and liabilities of the Disposal Group are generally categorised in seven components (the “**Valuation Components**”) including (i) properties under development for sales; (ii) properties held for sales; (iii) trade and other receivables; (iv) other assets; (v) interest in Chengde Jinyu; (vi) amount due from Chengde Jinyu; and (vii) other liabilities. The major assets and liabilities of the Disposal Group are set out in the section headed “Financial information of the Disposal Group” above.

In valuing the assets, the Valuer also adopts the most appropriate valuation approach (i.e. between the market, cost and income approaches) after having considered the relative advantages and disadvantages of each approach and the nature of the assets being appraised.

Set out below is the valuation approach adopted by the Valuer in arriving at their valuation of the market values of the Valuation Components:

The Valuation Components:

Asset/Liability	Valuation Approach
<i>(i) Properties under development for sales</i>	These refer to the property interests held by the Nanjing Project Company. The Valuer has valued these properties using market approach. Based on the latest development plan of the Nanjing Project, the properties will be developed into a comprehensive development with low-rise residential units, commercial buildings, hotel and car park spaces. The Valuer used three recent price samples for each property type with similar characteristics in terms of usage and location to determine the gross development value of the properties after completion and has come to the opinion that the gross development value of the development amounted to approximately RMB3,692.4 million (equivalent to approximately HK\$4,078.6 million). The total construction costs for the Nanjing Project is projected to be at approximately RMB2,939.0 million (equivalent to approximately HK\$3,246.4 million), of which RMB841.1 million (equivalent to approximately HK\$929.1 million) had already been incurred. After taking into account the above and the relevant taxes applicable to sales of developed properties and the time value (at a discount rate of 5.25% per annum) of the return on development, the Valuer has appraised the properties under development for sale at a preliminary value of RMB1,117 million (equivalent to approximately HK\$1,233.8 million) before considering the mortgage situation of the properties.

Having considered the factors including the default of the Nanjing Project Company on the scheduled settlement of the bank loan which is secured by the property interests and the disposal of the bank loan as non-performing assets by the bank, the Valuer has applied a rate on the preliminary market value of RMB1,117 million (equivalent to approximately HK\$1,233.8 million) to reflect the value for sale under repossession. The value for sale under repossession is determined with reference to the percentage difference between actual judicial transaction price of a foreclosed property and the market value assessed by a qualified valuer appointed by the relevant judiciary. The Valuer has made reference to several judicial auction transactions in the PRC and noted the difference between the assessed value and the actual transaction price ranged from 56% to 85%, with an average of approximately 68%. Therefore, the Valuer adopted 70% of the preliminary market value as the value for sale under repossession. On this basis, the Valuer has appraised the final market value of the properties interest held by the Nanjing Project Company to be RMB781.9 million (equivalent to approximately HK\$863.7 million) as at 31 December 2023.

(ii) *Properties held for sales*

These refer to the unsold property interests and three residential units contracted for sale by mid-January 2024 but not yet completed held by the Dongguan Project Company. The unsold property interests (i.e. the Dongguan Valuation Properties) include (i) 21 residential units not yet contracted for sale by mid-January 2024; (ii) all the 72 commercial units; (iii) 110 car parking spaces held for sale; and (iv) the Leasehold Car Spaces. Except for the Leasehold Car Spaces, all the Dongguan Valuation Properties were valued using market approach. The Valuer used three recent price samples each for residential units and car park spaces for valuation purpose, as well as four samples for the commercial units, with similar characteristics in terms of usage and location, to determine the market value of the unsold property interest. On this basis, the Valuer has appraised the market value of the Dongguan Valuation Properties (except for the Leasehold Car Spaces) to be RMB159.5 million (equivalent to approximately HK\$176.2 million).

Due to the absence of real estate ownership certificates, the Valuer has ascribed no commercial value to the Leasehold Car Spaces. However, given that the Dongguan Project Company has the right to use and of right to income generated by the Leasehold Car Spaces, the Valuer has evaluated the investment value of the Leasehold Car Spaces using the income approach to assess the worth of the Leasehold Car Spaces for investment purpose as at 31 December 2023 and had come to a valuation of investment value of the Leasehold Car Spaces as at 31 December 2023 to be approximately RMB12.2 million (equivalent to approximately HK\$13.5 million). The market value of the three residential units contracted for sale by mid-January 2024 are based on the actual selling prices of approximately RMB6.3 million (equivalent to approximately HK\$7.0 million).

After considering the relevant tax applicable to sales of properties of and selling expenses in the aggregate amount of approximately RMB23.5 million (equivalent to approximately HK\$26.1 million), the market value of the properties held for sales as at 31 December 2023 as appraised by the Valuer amounted to be RMB154.5 million (equivalent to approximately HK\$170.6 million) as at 31 December 2023.

(iii) Trade and other receivables

These mainly consist of deposits, prepayments and other receivables of the Dongguan Project Company, the Nanjing Project Company and Ruifeng. After assessing the nature and counterparties of these receivables, the Valuer is of the view that no expected credit loss is needed and the market value approximated the book value of HK\$102.7 million as at 31 December 2023.

(iv) Other assets

These items consist of cash and bank balances of HK\$35.8 million and other assets of HK\$0.8 million. In view of the nature of these assets, the Valuer is of the view that the market value approximated the book value of HK\$36.6 million as at 31 December 2023.

- (v) *Interest in Chengde Jinyu* This refers to the 42.5% indirect equity interest held by Ruifeng in Chengde Jinyu. The Valuer has appraised such equity interest as at 31 December 2023 (the “**Valuation of Chengde Jinyu Interest**”). Chengde Jinyu and its subsidiaries are engaged in the Luanping Project and property holding in the Luanping County. For the purpose of the Valuation of Chengde Jinyu Interest, the Valuer has adopted the summation method under the cost approach. To this end, the Valuer has appraised the values of all the assets of the Chengde Jinyu Group and subtract the aggregate liabilities from the aggregate market value of the assets. Given certain members of the Chengde Jinyu Group are not 100% owned directly or indirectly by Chengde Jinyu (i.e. Chengde Development is a 90% subsidiary of Chengde Jinyu), adjustments are made to reflect the amount of market value of the relevant assets and liabilities attributable to Chengde Jinyu after netting off the non-controllable interests of members of the Chengde Jinyu Group.

The market values of the assets of Chengde Jinyu Group have been valued as follows:

- (a) **Contract costs**
Contract costs mainly represent costs of development for the Luanping Project. The Valuer has valued the market value of the contract costs based on the present value of cost incurred plus agreed rate of investment return stipulated under the procurement agreement with the local government and adjusted for tax. The Valuer is of the opinion that the market value of the contract costs was RMB1,389.2 million (equivalent to approximately HK\$1,534.5 million) as at 31 December 2023.
- (b) **Trade receivables**
Trade receivables mainly represent receivables from local government which represent development costs of the Chengde Jinyu Group together with the return on development work and a share of net proceeds from the land sales by the local government. The Valuer has assessed the expected credit loss of the receivables and time value of money and is of the opinion that the market value of the trade receivables approximated its book value at approximately RMB206.1 million (equivalent to approximately HK\$227.7 million) as at 31 December 2023.

- (c) **Inventories**
The inventories represent three pieces of land in the Luanping County which are valued using the market approach. The Valuer has adopted the market approach and has appraised the market value of the land to be RMB156.4 million (equivalent to approximately HK\$172.8 million), of which approximately RMB148.2 million (equivalent to approximately HK\$163.7 million) is attributable to the Chengde Jinyu Group.
- (d) **Prepayment**
Prepayment mainly represent prepayments paid to construction companies for work that has been completed. In view of the nature of this item, which shall be offset against the accounts payables, the Valuer is of the opinion that the market value of the prepayment approximated its book value at approximately RMB84.4 million (equivalent to approximately HK\$93.2 million) as at 31 December 2023.
- (e) **Other receivables**
Other receivables mainly represent receivables from the PRC government and certain individuals. The Valuer has assessed the expected credit loss of the receivables and time value of money and is of the opinion that the market value of the other receivables approximated its book value at approximately RMB24.1 million (equivalent to approximately HK26.6 million) as at 31 December 2023.
- (f) **Other assets**
The other assets include property, plant and equipment and cash and bank balances. In view of the nature of these items, the Valuer is of the opinion that their market values approximate their respective book values of approximately RMB0.9 million (equivalent to approximately HK\$1.0 million) as at 31 December 2023.

The liabilities of Chengde Jinyu Group are comprised of (i) borrowings of approximately RMB1,235.4 million (equivalent to approximately HK\$1,364.6 million); (ii) trade and other payables of approximately RMB858.8 million (equivalent to approximately HK\$948.6 million); (iii) amounts owed by Chengde Development to Ruifeng of approximately RMB165.6 million (equivalent to approximately HK\$182.9 million) and to the Dongguan Project Company of approximately RMB86.2 million (equivalent to approximately HK\$95.2 million); (iv) amounts owed by Chengde Jinyu to Ruifeng of approximately RMB23.9 million (equivalent to approximately HK\$26.4 million) and (v) other liabilities of approximately RMB13.1 million (equivalent to approximately HK\$14.5 million), respectively. In view of the nature of these liabilities, the Valuer has concluded that their market values approximated their book values as at 31 December 2023.

The market value of the assets and liabilities of the Chengde Jinyu Group as appraised by the Valuer as at 31 December 2023 are set out in the table below.

	<i>RMB' million</i>
Assets	
Contract cost	1,389.2
Trade receivables	206.1
Inventories	148.2
Prepayments	84.4
Other receivables	24.1
Other assets	0.9
	<u>1,852.9</u>
Liabilities	
Borrowings	(1,235.4)
Trade and other payables	(858.8)
Amounts due to related companies	(275.7)
Current tax liabilities	(13.1)
	<u>(2,383.0)</u>
Net liabilities	
<i>Attributable to:</i>	
– Owners	(479.1)
– Non-controlling interests	(51.0)
	<u>(530.1)</u>

Given the summation of market value of all the assets attributable to the Chengde Jinyu Group subtracted by its aggregate attributable liabilities as at 31 December 2023 resulted in a negative amount of RMB479.1 million (equivalent to approximately negative HK\$529.2 million), the Valuer has appraised that the equity interest of Chengde Jinyu is of no commercial value as at 31 December 2023. On this basis, as the market value of the 42.5% equity interest held by Ruifeng in Chengde Jinyu is negative of RMB203.6 million (equivalent to approximately negative HK\$224.9 million), the Valuer has appraised that 42.5% equity interest in Chengde Jinyu is of no commercial value as at 31 December 2023.

- (vi) *Amount due from Chengde Jinyu* An assessment of expected credit loss has been conducted to determine the recoverable amount of the amount due from Chengde Jinyu. The expected recoverable amount is estimated by multiplying the total current assets held by the Chengde Jinyu Group by the ratio of the amounts due from Chengde Jinyu to the total current liabilities of Chengde Jinyu Group as of 31 December 2023. After assessment, the Valuer is of the view that there is no difference between the market value of the amount due from Chengde Jinyu and its book value of HK\$235.1 million as at 31 December 2023.
- (vii) *Other liabilities* These items include borrowings of HK\$1,058.9 million, trade and other payables of HK\$297.1 million, contract liabilities of HK\$173.8 million, and current tax liabilities of HK\$139.3 million, other liabilities of HK\$3.9 million and the Sale Loans. In view of the natures of these items, the Valuer is of the view that their market values approximated their book values as at 31 December 2023.

The market value of the Valuation Components of the Disposal Group as appraised by the Valuer as at 31 December 2023 are set out in the table below.

	<i>HK\$' million</i>
Assets	
Properties under development for sales	863.7
Properties held for sales	170.6
Trade and other receivables	102.7
Other assets	36.6
Interest in Chengde Jinyu (<i>Note</i>)	–
Amount due from Chengde Jinyu	235.1
	<u>1,408.7</u>
Liabilities	
Borrowings	(1,058.9)
Trade and other payables	(297.1)
Contract liabilities	(173.8)
Current tax liabilities	(139.3)
The Sale Loans	(176.2)
Other liabilities	(3.9)
	<u>(1,849.2)</u>
Total liabilities	
	<u>(1,849.2)</u>
Net liabilities	
<i>Attributable to:</i>	
– Owners	(189.1)
– Non-controlling interest	(251.4)
	<u>(440.5)</u>

Note: This represents the 42.5% equity interest in Chengde Jinyu, which has been appraised by the Valuer at no commercial value as at 31 December 2023.

Based on the above, the market value of all the assets of the Disposal Group after subtracting from its aggregate liabilities amounted to a negative amount of HK\$440.5 million as at 31 December 2023. Taking into account of the non-controlling interests of members of the Disposal Group, the equity value attributable to owners of the Disposal Company was in the negative of HK\$189.1 million as at 31 December 2023. As the attributable equity value to owners of the Disposal Company is a negative amount, the Valuer has appraised that the Sale Shares were of no commercial value as at 31 December 2023.

The valuation reports on (i) the Sale Shares, (ii) Chengde Jinyu and (iii) properties interests held by the Disposal Group and the Chengde Jinyu Group will be included in the circular in respect of the Disposal to be despatched to the Shareholders.

FINANCIAL EFFECTS OF THE DISPOSAL

Upon Completion, the Disposal Company will cease to be a subsidiary of the Company and the financial results, assets and liabilities of the members of the Disposal Group will no longer be consolidated into the financial statements of the Group. The continuing operation and businesses of the Remaining Group will be principally in manufacturing and trading of healthcare and household products, coal mining business and the money lending business. The healthcare and household business will be the primary revenue source of the Remaining Group, details of which are set out in the section headed “Businesses of the Remaining Group” below.

Potential financial impacts of the Disposal:

(i) *Pro-forma financial position of the Remaining Group:*

(a) Net asset position

As disclosed in the interim report of the Group for the six months ended 31 December 2023, (i) the unaudited consolidated total assets of the Group were approximately HK\$2,188.2 million; (ii) the unaudited consolidated total liabilities of the Group were approximately HK\$2,130.1 million; and (iii) the consolidated net assets of the Group were approximately HK\$58.1 million as at 31 December 2023. The net assets per Share was approximately HK\$0.0045 per Share as at 31 December 2023.

Assuming Completion has taken place on 31 December 2023, (i) the unaudited pro-forma consolidated total assets of the Remaining Group would be approximately HK\$779.5 million; (ii) the unaudited pro-forma consolidated total liabilities of the Remaining Group would be approximately HK\$403.4 million; and (iii) the unaudited pro-forma consolidated net assets of the Remaining Group would be approximately HK\$374.9 million. The unaudited pro-forma net assets per Share would be approximately HK\$0.029 per Share.

(b) Indebtedness and gearing position

As at 31 December 2023, the Group had unaudited total debts of approximately HK\$1,365.2 million and the Group's gearing ratio, calculated based on total debts divided by total equity, was approximately 2,350.6%.

Assuming Completion has taken place on 31 December 2023, the unaudited pro-forma total debts of the Remaining Group would be HK\$306.3 million and the Remaining Group's gearing ratio would be approximately 81.5%.

(c) Current assets position

The unaudited net current liabilities of the Group as at 31 December 2023 amounted to approximately HK\$526.8 million.

Assuming the Completion has taken place as at 31 December 2023, the unaudited pro-forma net current assets of the Remaining Group amounted to HK\$38.1 million. Such improvement was mainly due to (i) the extension of the repayment dates of the principal of the Shareholder's Loans from 31 December 2024 to 31 December 2027 upon Completion, resulting in the reclassification of the Shareholder's Loans from current liabilities to non-current liabilities; (ii) the deconsolidation of the net current liabilities of the Disposal Group of approximately HK\$261.1 million as at 31 December 2023; and (iii) the reduction of current liabilities resulting from the offsetting of the Sale Shares Consideration against the Shareholder's Loans Accrued Interest.

The aforesaid unaudited pro-forma financial position of the Remaining Group is for illustrative purpose only. Further financial effects of the Disposal, and unaudited pro-forma consolidated statement of financial position, pro-forma consolidated statement of profit or loss and unaudited pro-forma consolidated statement of cashflow of the Remaining Group will be included in the circular of the Company to be despatched to the Shareholders.

(ii) *Gain on Disposal:*

As mentioned in section headed “The Disposal Agreement” above, the Sale Shares Consideration of approximately HK\$53.7 million exceeds the Adjusted Disposal Group Net Liabilities Position in absolute value of approximately HK\$66.6 million. However, when calculating the gain/loss on Disposal according to the applicable accounting standards, cumulative exchange losses related to the Disposal Group in its foreign currency translation reserve amounting to approximately HK\$54.1 million (a non-cashflow item) as of 31 December 2023 will be reclassified from the reserve account to loss when the gain or loss on disposal is recognised. Further analysis on the estimated gain arising from the Disposal is as follows:

	<i>(HK\$' million)</i>
Consideration	53.7
<i>Less:</i>	
– <i>Assets/(liabilities) associated with the Sale Shares and the Sale Loans: (Note)</i>	
(i) the Disposal Group Net Liabilities Position	(189.1)
(ii) the Sale Loans	176.2
	<hr/>
	66.6
	<hr/> <hr/>
<i>Less:</i>	
– Cumulative exchange differences on translation of currency of foreign subsidiaries <i>(Note)</i>	54.1
– Estimated expenses for the Disposal	4.7
	<hr/>
Gain on Disposal	7.8
	<hr/> <hr/>

Note: The consolidated financial statements of the Group are presented in HK\$, which is the Company's functional and presentation currency. In accordance with the relevant accounting standards and accounting policy of the Group, the exchange differences resulting from the translation of the results and financial position of the Disposal Group to the presentation currency of the Group are recognized in other comprehensive income and accumulated in the foreign currency translation reserve of the Group. Due to the depreciation of RMB against HK\$ over the past years, the Group had recorded cumulative exchange losses relating to the Disposal Group in its foreign currency translation reserve amounting to approximately HK\$54.1 million as of 31 December 2023. Upon Completion, the cumulative exchange differences relating to the Disposal Group shall be reclassified from the reserve account to profit or loss as part of the gain or loss on the Disposal. As a result, upon Completion, cumulative exchange differences of HK\$54.1 million in the reserve account of the Group would be reclassified to part of the gain on Disposal as mentioned above.

The aforesaid estimation is for illustrative purpose only and does not purport to represent the gain or loss from the Disposal of the Group upon Completion. The actual financial effects of the Disposal will be determined with reference to the financial status of the Disposal Group as at the Completion Date.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Since 2020, the Disposal Group has been facing a challenging business environment in the property development sector in the PRC. This has been primarily caused by several factors, including, among others, tightening loan regulations for property developers, weak demand in the housing market, delays in the land sale of the Luanping Project and the prolonged impact of the Covid-19 pandemic.

As mentioned above, the Disposal Group has incurred significant losses for each of the 18 months ended 30 June 2022, the 12 months ended 30 June 2023 and the six months ended 31 December 2023. As at 31 December 2023, the outstanding borrowings (excluding the Sale Loans) of the Disposal Group amounted to approximately HK\$1,058.9 million, all of which were overdue. The Disposal Group Net Liabilities Position amounted to approximately HK\$189.1 million, and the Adjusted Disposal Group Net Liabilities Position amounted to approximately HK\$12.9 million.

The Directors are of the view that the outlook of the Group's property projects in the PRC remains highly uncertain. The unfavourable market conditions have made it challenging to sell the remaining residential units, commercial units and car parking spaces of the Dongguan Project within a short period of time. Meanwhile, it is not expected that the Nanjing Project would have a quick turnaround of its financial position to generate revenue from further pre-sale of the development properties. The Directors expect that the current status and substantial indebtedness of the Disposal Group are not likely to be resolved in the near term and the Disposal Group and the Chengde Jinyu Group will continue to have adverse impacts on the Group in terms of liquidity, gearing and resources allocation if the Group remains as the holding company/single largest shareholder (as the case may be) of them. Equally for the investment in Chengde Jinyu, the Directors consider that considerable long holding time would be needed for the investment to come to fruition; in face of the current difficulties of the operation of the Luanping Project as mentioned in the section headed "Investment in the Chengde Jinyu Group" above.

In an effort to alleviate the financial burden caused by the changing business environment and challenges as mentioned above, the Group has been exploring various alternatives to restructure its business. As disclosed in the Company's announcement dated 24 September 2021, in September 2021, the Group attempted to dispose of the Disposal Group as a means to offload such burden. However, despite having all the conditions fulfilled, the then buyer did not proceed to completion, leading to the termination of the then disposal in January 2023. As disclosed in the Company's annual report for the year ended 30 June 2023, in October 2023, the Group entered into a memorandum of understanding with another potential buyer for the disposal of the Group's property projects in the PRC. However, subsequently in December 2023, the potential buyer notified the Company that it had decided not to proceed with the disposal.

Recognising the gravity of the situation, the Company approached the Purchaser, who is a substantial Shareholder and non-executive Director, with a proposal for business realignment and debt restructuring, which has resulted in the conclusion of the Disposal Agreement after arm's length negotiations between the parties. The possible financial impacts of the Disposal on the Group are set out in the section headed "Financial effects of the Disposal" above. The Directors are of the view that the impacts are favourable to the Group overall.

The auditors of the Company have issued qualified opinions on the Company's consolidated financial statements for the year ended 30 June 2023 in respect of, among others, (i) the Group's interest in Chengde Jinyu and the amount due from Chengde Jinyu; and (ii) the Group's properties under development for sales and prepayments for the Nanjing Project. Details are contained in the 2022/23 annual report of the Company. Upon Completion, the financial results, assets and liabilities of the members of the Disposal Group will no longer be consolidated into the financial statements of the Group. Accordingly, it is expected, and the auditors of the Company are also of the view, that the aforesaid qualified opinions can be removed upon Completion. However, there will be qualified opinion regarding the gains/losses arising from the Disposal which will be charged to profit or loss of the Group.

Taking into account the factors above, the Directors (excluding the independent non-executive Directors who will express their views after considering the advice of the Independent Financial Adviser) consider that the terms of the Disposal are fair and reasonable and the Disposal is in the interests of the Company and the Shareholders as a whole.

BUSINESSES OF THE REMAINING GROUP

After Completion, the Remaining Group will be principally engaged in the manufacturing and trading of healthcare and household products, the coal mining business and the money lending business. It will no longer be engaged in the property development and primary land development business following the Disposal. Nevertheless, it will continue to hold an investment in a property development project in Malaysia, which is accounted as interest in associate of the Remaining Group. The healthcare and household business will continue to be the primary revenue base of the Remaining Group.

Healthcare and household products business

The business is operated through the Group's wholly-owned subsidiary of the Company named Fairform Manufacturing Company Limited ("**Fairform**"). Since 1996, Fairform has been engaged in manufacturing of powered oral care products and hair trimming products, specialising in the production of powered toothbrushes for both adults and kids. Over the years, the Group has continuously innovated its product with advanced features such as vibration, rotary oscillation, and sonic technology.

During 1996 to 2001, Fairform's development capabilities has evolved by firstly producing vibration toothbrushes and gradually transitioned to rotary oscillation and sonic toothbrushes. To stay competitive in the market, the Group maintains a strong research and development team for Fairform to ensure its products will stay ahead of and meet consumers' demands for enhancing quality performance and products features variety. The Group keeps introducing new products, ranging from handy disposable oscillation toothbrush, to slim sonic toothbrushes with a compact design without compromising performance, to sonic toothbrushes 40,000 strokes per minute. The high performance of this sonic toothbrushes product best speaks the strong technological and manufacturing ability of the Group among its peers. Continuing with their commitment to innovation, in 2016, the Group incorporated Bluetooth technology into their toothbrushes, allowing users to connect their devices and access personalised brushing data and features. This technology and product integration brings to consumers new experience in personal hygiene maintenance and enjoyment. In 2020, the Group introduced a powered toothbrush with interactive features, including light-up technology, built-in waterproof speaker with music, sound effects, and real-time brush feedback, along with a brushing timer for children to make teeth brushing more interesting and fun. The Group also has a line of powered toothbrush products featuring popular cartoon characters and printed foil designs for children from early age.

The Group has established partnerships with prominent global brands in the capacity of original equipment manufacturer ("**OEM**") and/or a manufacturer of private label products. As an OEM, the Group manufactures products according to the specific requirements of its customers, including design, materials, and techniques. Notably, the Group has collaborated with a renowned multinational consumer goods corporation for over 18 years, producing powered toothbrushes for children featuring licensed cartoon designs from a multinational mass media and entertainment conglomerate. As a private label model manufacturer, the Group is responsible for the design and production process, while customers will market them under their own brands. Majority of the Group's products are for export and are eventually distributed in retailers. The United States of America is the largest export market for the Group, followed by Germany. The Group also sells to customers from other markets in in the United Kingdom, Hong Kong and other countries.

The Group's products are manufactured in its own production facility located in Dongguan City, the PRC. This factory holds ISO9001 and ISO14000 certification. With an annual production capacity of over 10 million pieces of powered devices. From 2019 to 2023, the Group has produced between approximately 6.7 million and 12.2 million pieces of powered devices. This track record demonstrates the Group's capability to meet the industry's evolving demands for technology change and performance, while maintaining a high level of product output and quality.

Fairform is led by a management team with over 20 years of experience in design and manufacturing of consumer electronic goods. Currently, Fairform employs a workforce of over 500 employees. The Group distinguishes itself from its competitors with its robust in-house research and development capabilities, including mould making, and software programming and high-efficiency machines. This comprehensive range of capabilities empowers the Group to oversee the entire production process, from initial design to final manufacturing, resulting in seamless quality control and efficient delivery from raw materials to finished products.

The Group's healthcare and household products business demonstrated strong performance prior to the Covid-19 pandemic, reaching an average revenue of approximately HK\$191.7 million for the three years ended 30 June 2020. The outbreak of the Covid-19 pandemic had a significant impact on global logistics and shipment, resulting in fluctuations in revenue for the healthcare and household products business. For the year ended 30 June 2021, revenue decreased to HK\$121.2 million. Subsequently, revenue increased to approximately HK\$158.7 million for the year ended 30 June 2022, followed by HK\$172.4 million for the year ended 30 June 2023. The increase in revenue was attributable to the significant increase in purchase orders from its key customers particularly in the latter part of year 2022, which was driven by the concerns about potential disruptions in the supply chain resulting from Covid-19 control measures in the PRC. However, as the year 2023 progressed, the customers initiated a destocking process and reduced their orders placed with the Group in order to manage the inventory level. There was also a decline in sales of disposable powered toothbrushes with non-replaceable batteries in the European market. As a result, revenue for the six months ended 31 December 2023 recorded a decline, reaching approximately HK\$47.3 million. Based on the information currently available to the Company, revenue for the healthcare and household products business amounted to approximately HK\$71.0 million for the nine months ended 31 March 2024.

Driven by growing environmental consciousness globally, it is likely that the decline in sales of disposable powered toothbrushes with non-replaceable batteries may continue in the near future. Nevertheless, the Group is well-prepared for this potential development. In fact, the Group has already developed products which are more eco-friendly, such as rechargeable powered toothbrushes with replaceable heads. With its strong in-house research and development capabilities and adaptability to market trends and long-term relationship with key customers, the Group is confident that it could work with its customers to develop products that meet consumer's needs and adapt to any change in market trend.

The Group is optimistic about Fairform’s future performance and for the revenue to return to pre Covid-19 levels, on the strength of its proven and product quality and the new products scheduled to be launched in the coming 12 months. The Group anticipates that sales will regain momentum in the second quarter of 2024 as the destocking effect diminishes and customers gradually replenish their inventory levels in preparation for the holiday season in the latter half of the year. Such momentum is expected to continue into the year ending 30 June 2025 until the destocking effect fully dissipates.

The Group plans to release new products in the coming 12 months to meet the demand of market trend and consumers’ needs. The highlights will be the introduction of (i) a sleek, sonic powered toothbrush with a modern design that adds style and visual appeal (the “**Sleek PTB**”); and (ii) a new powered toothbrush with both sonic and rotary oscillation functions, the combination of which creates a dynamic brushing action for effective plaque removal from teeth and along the gumline (the “**Sonic-Oscillation PTB**”). The Group believes that these new products will have the competitive edge to gain a notable market presence. Mass production tooling of the Sleek PTB has been completed while pilot tooling of the Sonic-Oscillation PTB has started for design validation, with mass production tooling expected to commence in the third quarter of year 2024. For these new products, the Group will prioritise its current markets in the United States and Europe, while also exploring potential opportunities in South East Asia and other markets. As at the date of this announcement, the Group has identified a customer with indicative purchase amount of these new products for sale in a large hypermarket chain in the United States. The pilot sales and subsequent full launch of the Sonic-Oscillation PTB is planned for the fourth quarter of year 2024 and early 2025, respectively, and the Sleek PTB is targeted to be launched in the first quarter of year 2025. The Group is also in discussions with potential customers for sales of the new products to retail chains in Europe and considering to sell them on online retail platforms in South East Asia.

Coal mining business

The Remaining Group is also engaged in the coal mining business in the Central Kalimantan Province in the Republic of Indonesia. In September 2023, the Group entered into an exclusive cooperation agreement with an independent operator which shall carry out production activities at the coal mine for a valid period of five years. The work and budget plan of the coal mining business for the years 2024 to 2026 has been approved by the Indonesian Government in December 2023. The production activities have been commenced by the operator in early May 2024, and the Group will be entitled to receive royalty fees based on the sales of coal production. Production volume will gradually ramp up and is expected to reach 500,000 tons and 600,000 tons for the years ending 30 June 2025 and 2026, respectively. Once the operations have been streamlined and running smoothly, the Group may also consider to apply to the government to uplift the approved production levels.

Money lending business

The Remaining Group will continue to monitor the repayment of its existing loan portfolio of the money lending business. In view of the recent market sentiment, the Group does not intend to grant new loans in the near future.

Investment in a property development project at Port Dickson, Malaysia

The Remaining Group holds a 35% equity interest in Pacific Memory Sdn Bhd which is accounted for as an associate of the Remaining Group. It is engaged in commercial development at Port Dickson, Malaysia with facilities including a hotel, yacht club, event venues and retail spaces and related amenities. The development plan has been submitted for approval to the relevant government agencies and part of the plan relating to the construction of berths has already been approved and completed. Currently, the management is in the process of finalizing the sales and marketing proposal plans in collaboration with a business consultant specifically for the berths facilities area.

Intentions on the Remaining Group

As at the date of this Announcement, apart from the Disposal, the Group does not have any intention, negotiation, agreement, arrangement, and understanding (concluded or otherwise) about: (i) acquisition or injection of any new business into the Remaining Group; and (ii) disposal or downsizing of any business of the Remaining Group.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio in respect of the Disposal under Rule 14.07 of the Listing Rules exceeds 75%, the Disposal constitutes a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

As the Purchaser is a non-executive Director and a substantial Shareholder of the Company, and therefore a connected person of the Company pursuant to the Listing Rules, the Disposal also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules.

GENERAL

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Hau Chi Kit, Mr. Leung Chi Hung and Mr. Li Hon Kuen, has been established to advise the Shareholders as to (i) whether the terms of the Disposal are fair and reasonable; (ii) whether the Disposal is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Disposal is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Disposal. Gram Capital Limited has been appointed as the Independent Financial Adviser to make recommendation to the Independent Board Committee and the Shareholders in the same regard.

A SGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal Agreement and the transactions contemplated thereunder. Voting by the Shareholders at the SGM will be taken by poll. The Purchaser and his associates are required under the Listing Rules to abstain from voting on the resolution approving the Disposal at the SGM. As at the date of this announcement, the Purchaser holds 1,569,420,951 Shares, representing approximately 12.24% of the issued share capital of the Company. To the best of the information, knowledge and belief of the Directors having made reasonable enquiries, none of the associates of the Purchaser hold any Shares as at the date of this announcement.

A circular containing, among other things, (a) further information in relation to the Disposal; (b) the recommendation from the Independent Board Committee in respect of the Disposal Agreement and the transactions contemplated thereunder; (c) the letter of advice of the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Disposal Agreement and the transactions contemplated thereunder; (d) the financial information of the Disposal Group; (e) the pro forma financial information of the Remaining Group; (f) the Valuation Reports; and (g) other information as required under the Listing Rules, together with a notice of the SGM, will be despatched to the Shareholders on or before 30 June 2024, which is more than 15 Business Days from the date of this announcement in order to allow sufficient time for the Company to prepare necessary information for inclusion in the circular.

Completion is subject to the satisfaction of the conditions precedent under the Disposal Agreement, and therefore, the Disposal may or may not proceed to Completion. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	save as indicated in this announcement, has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which the Stock Exchange is open for transaction of business
“BVI”	the British Virgin Islands
“Chengde Development”	承德中證城鄉開發有限公司 (Chengde Zhongzheng Urban and Rural Development Co., Ltd.*), a company established in the PRC with limited liability and a non-wholly owned subsidiary of Chengde Jinyu as at the date of this announcement

“Chengde Jinyu”	承德中證金城投資開發有限公司 (Chengde Zhongzheng Jinyu Investment Development Co., Ltd.*), a company established in the PRC with limited liability and an indirect associated company of the Company as at the date of this announcement
“Chengde Jinyu Group”	Chengde Jinyu and its subsidiaries
“Company”	Zhongzheng International Company Limited, a company incorporated in Bermuda with limited liability and its issued Shares are listed on the Main Board of the Stock Exchange (stock code: 943)
“Completion”	completion of the Disposal pursuant to the terms and conditions of the Disposal Agreement
“Completion Date”	the date of the Completion
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed disposal of the Sale Shares and the Sale Loans pursuant to the terms and conditions of the Disposal Agreement
“Disposal Agreement”	the conditional sale and purchase agreement dated 6 May 2024 entered into among the Company, GPI and the Purchaser in relation to the Disposal
“Disposal Company”	Hong Kong Zhongzheng City Investment Limited, a company incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Disposal Group”	the Disposal Company and its subsidiaries
“Dongguan Project”	a property development project located in the north side of Guantai Avenue, Zhouxi Village, Nancheng District, Dongguan City, Guangdong Province, the PRC

“Dongguan Project Company”	東莞禾信房地產開發有限公司 (Dongguan Hexin Real Estate Development Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Fengda”	承德中證豐達建設開發有限公司 (Chengde Zhongzheng Fengda Construction Development Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“GFA”	gross floor area
“GPI”	Grand Prominent International Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, namely Mr. Hau Chi Kit, Mr. Leung Chi Hung and Mr. Li Hon Kuen, which has been established to make recommendations to the Shareholders regarding the Disposal
“Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Disposal
“Independent Shareholders”	Shareholders other than the Purchaser and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Luanping Huawei”	灤平華偉房地產開發有限公司 (Luanping Huawei Real Estate Development Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of Chengde Development as at the date of this announcement

“Luanping Huayang”	灤平華陽房地產開發有限公司 (Luanping Huayang Real Estate Development Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of Chengde Development as at the date of this announcement
“Luanping Project”	a primary land development project in collaboration with the Luanping County People’s Government in Hebei Province, the PRC
“Luanping Qianyang”	灤平乾陽房地產開發有限公司 (Luanping Qianyang Real Estate Development Co., Ltd.*), a company established in the PRC with limited liability and a non-wholly owned subsidiary of Chengde Development as at the date of this announcement
“Nanjing Project”	a property development project located in the south of Naishan, Tuanjie Village, Donggou Town, Liuhe District, Nanjing City, Jiangsu Province, the PRC
“Nanjing Project Company”	南京源鼎置業有限公司 (Nanjing Yuanding Real Estate Co., Ltd.*), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company as at the date of this announcement
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Mr. Lim Kim Chai, a non-executive Director and a substantial Shareholder of the Company
“Remaining Group”	the Group immediately after Completion
“Ruifeng”	深圳市中證瑞豐管理有限公司 (Shenzhen Zhongzheng Ruifeng Management Co., Ltd.*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company as at the date of this announcement

“Sale Loans”	the unsecured loans and amount owed by Ruifeng to the Company, being the aggregate of (i) the shareholder’s loans owed by Ruifeng to the Company with outstanding principal amount of approximately HK\$139.1 million and accrued interest of approximately HK\$35.1 million; and (ii) the amount due from Ruifeng to the Company under current account of approximately HK\$2.0 million, as at 30 June 2023 and up to the date of the Disposal Agreement
“Sale Loans Consideration”	the nominal consideration of approximately HK\$1 for the Sale Loans under the Disposal Agreement
“Sale Shares”	the entire issued share capital of the Disposal Company as at the date of the Disposal Agreement
“Sale Shares Consideration”	the consideration of approximately HK\$53.7 million for the Sale Shares under the Disposal Agreement
“Sale Shares Valuation”	the valuation on the Sale Shares as at 31 December 2023 conducted by the Valuer
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Disposal Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.00004 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholder’s Loan A”	the unsecured shareholder’s loan owing by the Company to the Purchaser in the principal amount of HK\$20 million bearing interest at the rate of 2.2% per annum
“Shareholder’s Loan B”	the unsecured shareholder’s loan owing by the Company to the Purchaser in the principal amount of HK\$230 million bearing interest at the rate of 5.0% per annum
“Shareholder’s Loans”	together, Shareholder’s Loan A and Shareholder’s Loan B
“Shareholder’s Loans Accrued Interest”	the aggregate amount of accrued and unpaid interest on the Shareholder’s Loans up to the date of the Disposal Agreement of approximately HK\$53.7 million

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation Reports”	valuation reports on (i) the Sale Shares, (ii) Chengde Jinyu and (iii) properties interests held by the Disposal Group and the Chengde Jinyu Group to be included in the circular to be despatched to the Shareholders
“Valuer”	Graval Consulting Limited, an independent professional firm providing valuation and consulting services
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“mu”	a unit of land measurement, where 1 mu is equivalent to approximately 666.67 sq. m.
“sq. m.”	square metres
“sq. km.”	square kilometres

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

Hong Kong, 6 May 2024

For the purpose of illustration only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of HK\$1 to approximately RMB0.9053. Such conversion should not be construed as a representation that any amount has been, could have been, or may be, exchanged at this rate or any other rate.

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.

* *For information purpose only*