ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
中華國際控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1064)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

This announcement is made pursuant to Rules 13.49(1) and (2) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The board of directors (the "Directors") of Zhong Hua International Holdings Limited (the "Company") would like to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023 (the "Annual Results"), together with the comparative figures and the relevant explanatory notes, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
REVENUE	*2*	**28,363**	30,283
Other income and gains		**377**	786
Changes in fair value of investment properties		**(52,304)**	50,692
Changes in fair value of equity interest in an entity at fair value through profit or loss	*11*	**16,252**	–
Loss on derecognition of a then subsidiary	*12*	**(1,708,355)**	–
Administrative expenses		**(22,978)**	(25,302)
Finance costs	*3*	**(843)**	(1,509)
PROFIT/(LOSS) BEFORE TAX	*4*	**(1,739,488)**	54,950
Income tax expense	*5*	**(109,870)**	(20,900)
PROFIT/(LOSS) FOR THE YEAR		**(1,849,358)**	34,050

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Attributable to:			
Ordinary equity holders of the Company		**(482,140)**	3,273
Non-controlling interests		**(1,367,218)**	30,777
		(1,849,358)	34,050
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
– Basic		**HK cents (62.73)**	HK cents 0.46
– Diluted		**HK cents (62.73)**	HK cents 0.46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	2022
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(1,849,358)**	34,050
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(129,535)**	(242,675)
Reclassification adjustments for derecognition of a then subsidiary *(note 12)*	**20,469**	–
Net other comprehensive expense that may be reclassified to the income statement in subsequent periods	**(109,066)**	(242,675)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR	**(1,958,424)**	(208,625)
Attributable to:		
Ordinary equity holders of the Company	**(498,156)**	(69,972)
Non-controlling interests	**(1,460,268)**	(138,653)
	(1,958,424)	(208,625)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,551**	3,460
Investment properties		**369,600**	4,274,112
Equity interest in an entity at fair value through profit or loss	*11*	**1,030,472**	–
Total non-current assets		**1,403,623**	4,277,572
CURRENT ASSETS			
Properties held for sale		**–**	29,315
Trade receivables	*8*	**–**	12,334
Prepayments, deposits and other receivables		**2,222**	11,864
Cash and cash equivalents		**90,761**	84,874
Total current assets		**92,983**	138,387
CURRENT LIABILITIES			
Trade payables	*9*	**(1,914)**	(2,075)
Other payables and accruals		**(26,987)**	(56,719)
Tax payable		**(34,297)**	(78,559)
Total current liabilities		**(63,198)**	(137,353)
NET CURRENT ASSETS		**29,785**	1,034
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,433,408**	4,278,606
NON-CURRENT LIABILITIES			
Loan from a director		**–**	(72,297)
Due to a director		**(148,183)**	(113,915)
Long term other payables		**(53,734)**	(146,003)
Deferred tax liabilities		**(168,392)**	(924,868)
Total non-current liabilities		**(370,309)**	(1,257,083)
Net assets		**1,063,099**	3,021,523
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*10*	**19,215**	17,840
Reserves		**356,599**	856,130
		375,814	873,970
Non-controlling interests		**687,285**	2,147,553
Total equity		**1,063,099**	3,021,523

Notes:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity interest in an entity at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand dollars except when otherwise indicated.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

(e) In June 2022, the Government of the Hong Kong Special Administrative Region gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022, following which the statutory right of an employer to offset severance payment and the long service payment by its mandatory contributions to the mandatory provident fund scheme ("MPF") will be abolished, effective on 1 May 2025. The issue itself is complex and there is no specific guidance in HKAS 19. In response to this, in July 2023, the HKICPA published a comprehensive guidance on the accounting for the impact arising from the abolition. The amendments did not have material impact in Group's financial statements.

2. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue

An analysis of revenue is as follows:

	2023	2022
	HK$'000	*HK$'000*
Revenue from other sources		
Income from letting of investment properties	**28,363**	30,283

Operating segment information

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the property investment and development segment, which invests in properties for generating potential income from letting and sells properties located in Mainland China; and

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit/(loss) before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as it is managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, a loan from a director and an amount due to a director as these liabilities are managed on a group basis.

	Property investment and development		Corporate and others		Total	
	2023	2022	**2023**	2022	**2023**	2022
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	**HK$'000**	***HK$'000***
Segment revenue						
Sales to external customers	**28,363**	30,283	**–**	–	**28,363**	30,283
Segment results	**(1,724,344)**	71,161	**(14,678)**	(15,488)	**(1,739,022)**	55,673
Other income and gains					**377**	786
Finance costs					**(843)**	(1,509)
Profit/(loss) before tax					**(1,739,488)**	54,950
Income tax expense					**(109,870)**	(20,900)
Profit/(loss) for the year					**(1,849,358)**	34,050
Segment assets	**1,405,505**	4,331,007	**340**	78	**1,405,845**	4,331,085
Unallocated assets					**90,761**	84,874
Total assets					**1,496,606**	4,415,959
Segment liabilities	**73,619**	197,405	**9,016**	7,392	**82,635**	204,797
Unallocated liabilities					**350,872**	1,189,639
Total liabilities					**433,507**	1,394,436
Other segment information						
Depreciation of property, plant and equipment	**250**	261	**48**	–	**298**	261
Depreciation of right-of-use asset	**–**	–	**–**	1,419	**–**	1,419
Fair value loss/(gain) of investment properties	**52,304**	(50,692)	**–**	–	**52,304**	(50,692)
Fair value gain of equity interest in an entity at fair value through profit or loss	**(16,252)**	–	**–**	–	**(16,252)**	–
Loss on derecognition of a then subsidiary	**1,708,355**	–	**–**	–	**1,708,355**	–
Capital expenditure	**–**	–	**477**	–	**477**	–

Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

Information about major customer

Revenue from one customer which accounted for revenue exceeding 10% of Group's total revenues. Revenue from Customer A accounted for HK$28,363,000 (2022: HK$30,283,000) during the year ended 31 December 2023.

3. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest on:		
Loan from a director	**843**	1,484
Lease liability	**–**	25
Total	**843**	1,509

4. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2023	2022
	HK$'000	*HK$'000*
Depreciation of property, plant and equipment	**298**	261
Depreciation of right-of-use asset	**–**	1,419
Bank interest income	**(239)**	(601)
Changes in fair value of investment properties	**52,304**	(50,692)
Changes in fair value of equity interest in an entity at fair value through profit or loss *(note 11)*	**(16,252)**	–
Loss on derecognition of a then subsidiary *(note 12)*	**1,708,355**	–

5. INCOME TAX

	2023	2022
	HK$'000	*HK$'000*
Current – Mainland China		
Corporate income tax		
Charge for the year	**5,114**	5,805
Deferred	**104,756**	15,095
Total tax charge for the year	**109,870**	20,900

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2022: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2022: 25%).

6. FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$482,140,000 (2022: profit for the year attributable to ordinary equity holders of the Company of HK$3,273,000), and the number of ordinary shares of 768,616,520 (2022: 713,767,205) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2023.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2022 in respect of a dilution as the impact of the share options did not have a dilution effect on the basic earnings per share amount presented.

8. TRADE RECEIVABLES

An ageing analysis of the trade receivables at the end of the reporting period is as follows:

	2023		2022	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
Within 6 months	**–**	**–**	12,334	100

The Group generally grants a credit term of 3 months to 12 months to its customers.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

9. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

	2023		2022	
	HK$'000	***Percentage***	*HK$'000*	*Percentage*
More than 1 year	**1,914**	**100**	2,075	100

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

10. SHARE CAPITAL

	2023	2022
	HK$'000	*HK$'000*
Authorised:		
4,000,000,000 (2022: 4,000,000,000) ordinary shares of HK$0.025 (2022: HK$0.025) each	**100,000**	100,000
Issued and fully paid:		
768,616,520 (2022: 713,616,520) ordinary shares of HK$0.025 (2022: HK$0.025) each	**19,215**	17,840

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		HK$'000
At 1 January 2022, 31 December 2022 and 1 January 2023	713,616,520	17,840
Shares issued	55,000,000	1,375
At 31 December 2023	768,616,520	19,215

On 9 January 2023, 55,000,000 shares were issued and allotted to the option holders for cash at a subscription price of HK$0.09 per share pursuant to the exercise of the share options. An amount of HK$4,950,000 and HK$1,642,000 are transferred from other reserve and share options reserve to share capital and share premium of HK$1,375,000 and HK$5,217,000, respectively.

11. EQUITY INTEREST IN AN ENTITY AT FAIR VALUE THROUGH PROFIT OR LOSS

The movement of the carrying amount of the Group's equity interest in GZ Zheng Da (as defined below) during the year are as follows:

	2023	2022
	HK$'000	*HK$'000*
Financial asset at fair value through profit or loss		
Unlisted equity interest in an entity at fair value through profit or loss at fair value:		
Carrying amount at 1 January	**–**	–
Derecognition of a then subsidiary *(note 12)*	**1,014,220**	–
Changes in fair value recognised in the income statement *(note 4)*	**16,252**	–
Carrying amount at 31 December	**1,030,472**	–

12. DERECOGNITION OF A THEN SUBSIDIARY

In late June 2023, the Group acknowledged that the Rescission Order (撤銷駁回裁定) (as defined below) was issued by the Guangdong Province Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") on 15 May 2023 to the effect of granting the New Liquidation Order (as defined below) against 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") by the Guangdong Provincial Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") on 7 August 2023. Accordingly, the Directors considered that the Group had lost the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements* on 15 May 2023 and GZ Zheng Da was derecognised as a then subsidiary and the equity interest in GZ Zheng Da was then classified as financial asset at fair value through profit or loss and was included as "Equity interest in an entity at fair value through profit or loss" on the consolidated statement of financial position.

	HK$'000
Net assets of GZ Zheng Da:	
Investment properties	3,672,000
Properties held for sale	28,018
Cash and cash equivalents	98
Trade receivables	259
Prepayments, deposits and other receivables	10,744
Other payables and accruals	(35,147)
Tax payable	(45,361)
Due to a director	(21,001)
Long term other payables	(86,805)
Deferred tax liabilities	(820,699)
Subtotal	2,702,106
Release of exchange fluctuation reserve	20,469
	2,722,575
Loss on derecognition of a then subsidiary *(notes 4 and (a))*	(1,708,355)
Satisfied by:	
Equity interest in an entity at fair value through profit or loss *(note 11)*	1,014,220

An analysis of the net outflow of cash and cash equivalents in respect of the derecognition of a then subsidiary is as follows:

	HK$'000
Cash consideration	–
Cash and cash equivalents disposed of	(98)
Net outflow of cash and cash equivalents in respect of derecognition of a then subsidiary	(98)

Note:

(a) A significant loss on derecognition of a then subsidiary was resulted mainly because of the differences between the fair value of the equity interest in GZ Zheng Da and the original carrying amounts of respective assets and liabilities of GZ Zheng Da.

The fair value of the equity interest in GZ Zheng Da was determined based on discounted net realisation value (i.e., discounted cash flow method from realisation of assets and settlement of liabilities of GZ Zheng Da). In determining the fair value of the equity interest in GZ Zheng Da, the Directors had taken into accounts (i) the fair values of the underlying major assets with repossession discount and liabilities of GZ Zheng Da; (ii) relevant expenses, payments and tax for disposals of the assets, in particular, the properties, according to the prevailing tax rules and other relevant law and regulations; (iii) the timing to recover the investment, and (iv) the discount rate.

13. EVENTS AFTER THE REPORTING PERIOD

(a) In April 2024, Zheng Da Real Estate Development Company Limited ("HK Zheng Da"), a non-wholly owned subsidiary, which held 100% equity interest in GZ Zheng Da, filed a writ at the Guangzhou Court to the effect, inter alia, that:

(i) to ascertain if 廣州市越秀國有資產經營有限公司 ("Yuexiu SoE") (the vendor of 廣州市越秀房地產開發經營公司 ("Yuefang SoE") retains Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE (the first defendant) and HK Zheng Da (the plaintiff) in the co-operative joint venture of GZ Zheng Da does substantiate;

(ii) to ascertain if the *jural nexus* between HK Zheng Da and 廣州市越秀房地產開發經營有限公司 ("Yuefang PE") (the second defendant) in the co-operative joint venture of GZ Zheng Da does not substantiate; and

(iii) to claim interest loss of RMB41 million from Yuexiu SoE.

The writ was accepted (受理) by the Guangzhou Court in May 2024 and the hearing date was tentatively fixed in August 2024. GZ Zheng Da joined the writ as an interested party (利害關係人).

Based on competent legal advice, both HK Zheng Da and GZ Zheng Da were of the view that the New Liquidation Order would be void and inoperative as permissible by law if the related pleads made by HK Zheng Da were ascertained by the court.

Further details of the above writ were disclosed in the Company's announcement dated 30 May 2024.

(b) As further disclosed in the section headed "Material Acquisition Update" below, the Company and the vendors had not yet concluded any revised terms for settlement of the consideration for, and completion timetable, in relation to the uncompleted tranches under the Acquisition Agreement (as defined below) since June 2023. As such, the Company and the vendors, amongst other parties, entered into an extension agreement (the "2024 Extension Agreement") on 24 June 2024 to further extend the completion of the Remaining Tranches (as defined in the Acquisition Agreement) to 30 June 2026 with an aim of arriving revised terms for the Acquisition Agreement.

Other than the extension of the completion of the Remaining Tranches to 30 June 2026 pursuant to the 2024 Extension Agreement, the Directors confirmed that all terms and conditions of the Acquisition Agreement (as amended by previous supplemental agreements disclosed up to the date of the Company's announcement dated 30 June 2023) remained valid and binding to the parties thereto. Further details were disclosed in the Company's announcement dated 24 June 2024.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Company's consolidated financial statements for the year ended 31 December 2023:

"Qualified opinion

In our opinion, except for the possible effects of the matter described in the *Basis for qualified opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for qualified opinion

As disclosed in notes (9) and 32(e) to the consolidated financial statements, the Group had undergone a very lengthy liquidation petition where the joint venture partner ("JV Partner") of a then subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da", held by Zheng Da Real Estate Development Company Limited ("HK Zheng Da", a non-wholly owned subsidiary of the Group)), had filed to the court seeking for a liquidation of GZ Zheng Da in order to recover its entitled residual assets therein. During the year, a final court decision has been made which ordered GZ Zheng Da to be liquidated and a PRC law firm has been appointed as the liquidator. However, pursuant to the court order, the allocation and distribution of residual assets of GZ Zheng Da between the Group and the JV Partner was not determined, and is to be resolved via legal actions during the liquidation proceedings.

Due to the compulsory liquidation judgement of GZ Zheng Da in May 2023, the Group has lost control therein, and has deconsolidated GZ Zheng Da, resulting in a loss on derecognition amounting to HK$1,708,355,000 for the year ended 31 December 2023. As at 31 December 2023, the Group recorded its equity interest in GZ Zheng Da as a non-current financial asset and stated at fair value which amounted to HK$1,030,472,000. As further explained in these notes, other than the appointment of the liquidator, the legal actions surrounding the liquidation proceedings have not been substantively commenced. Accordingly, the determination of the allocation of the residual assets of GZ Zheng Da has not been concluded. Whilst the Group contends that HK Zheng Da has full entitlement to the residual assets pursuant to the joint venture agreements, there are potential legal risks that the JV Partner may claim part of the residual assets based on its basis of assets contribution (if any) in the past.

Due to the significant uncertainty of the outcome of the distribution of the residual assets upon liquidation, we were unable to obtain sufficient appropriate audit evidence to assess whether any additional residual assets should be allocated to the JV Partner, as at the date when GZ Zheng Da's control was lost, and as at 31 December 2023 (collectively, "dates of measurement") and, consequently, whether adjustments are necessary to the valuation of equity interest in GZ Zheng Da on the respective dates of measurement, which may impact the carrying amount of the equity interest in an entity at fair value through profit or loss at 31 December 2023, the loss on derecognition of a then subsidiary, and the fair value changes in equity interest in an entity at fair value through profit or loss for the year ended 31 December 2023. Any adjustments as mentioned above found to be necessary would have a consequential effect on the Group's net assets as at 31 December 2023, its result for the year ended 31 December 2023 and the related elements making up the statement of changes in equity."

MANAGEMENT'S RESPONSE TO THE QUALIFIED AUDIT OPINION

Taking into account the facts and competent legal advice, together with legal grounds substantiated, the management of the Company (the "Management") contends that HK Zheng Da shall have 100% entitlement to the residual assets of GZ Zheng Da pursuant to the terms of the joint venture agreement of GZ Zheng Da (as amended by supplemental agreements) under liquidation (*if it takes place and without prejudice*) and relevant PRC laws, there remains potential legal risk that Yuefang PE may claim for part of the residual assets of GZ Zheng Da based on its own basis of asset contribution made (if any) in the past. However, the Management remains optimistic in obtaining a favourable judgement if and when such potential disputes in specific asset allocation in accordance with the respective joint venture partners' interests are brought to legal proceedings. Such legal proceedings are not yet initiated to-date and the basis of claim, outcome and impact to the Group, if any, remain uncertainty to-date.

The Audit Committee of the Company (the "Audit Committee"), after reviewing the facts and information available to them and taking competent legal advice, endorses the views of the Management.

Further elaborations of the Management's actions taken against such potential claim(s) are disclosed below.

For the avoidance of confusion, the Management refers to the executive director and senior management of the Company.

FINANCIAL REVIEW

The Group recorded a revenue of HK$28,363,000 (2022: HK$30,283,000) for the year ended 31 December 2023. Net loss attributable to ordinary equity holders of the Company for the year was HK$482,140,000 (2022: net profit attributable to ordinary equity holders of the Company HK$3,273,000). There were no material changes in the Group's turnover during the year.

Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2023 was profit of HK$6,060,000 (2022: HK$7,447,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation and does not take into account the effect of changes of fair value of investment properties, loss on derecognition of a then subsidiary and changes in fair value in equity interest in an entity at fair value through profit or loss.

Net Profit/(Loss)

The loss of the Group before tax and loss after tax for the year ended 31 December 2023 were HK$1,739,488,000 (2022: profit before tax of HK$54,950,000) and HK$1,849,358,000 (2022: profit after tax of HK$34,050,000), respectively. The Group changed from profit before tax to a loss before tax during the year was attributable to (i) loss on derecognition of a then subsidiary of HK$1,708,355,000 (2022: Nil); (ii) fair value gain of equity interest in an entity of HK$16,252,000 (2022: Nil); and (iii) a fair value loss of the Group's investment properties of HK$52,304,000 for current year as compared with a fair value gain of the Group's investment properties of HK$50,692,000 for last year.

Financial Impact of the Derecognition of A Then Subsidiary

A significant loss on derecognition of a then subsidiary, GZ Zheng Da, was resulted mainly because of the differences between the fair value of the equity interest in GZ Zheng Da and the original carrying amounts of respective assets and liabilities of GZ Zheng Da. All these losses were non-cash transactions and unrealised losses as well as reflected in the movements of reserve accounts of the Group through profit and loss. Accordingly, the losses recorded in the Company's consolidated financial statements did not have any impact on the liquidity of the Group for the year ended 31 December 2023.

The loss on derecognition of a then subsidiary, GZ Zheng Da, was "one off" transaction for the year ended 31 December 2023 while the changes in fair value of equity interest in an entity, GZ Zheng Da, would continue to be reflected in the consolidated income statement of the Group for subsequent financial years until and when the derecognition of the equity interest in GZ Zheng Da is ceased or the equity interest in GZ Zheng Da is realised. If GZ Zheng Da is re-consolidated as a subsidiary of the Group, a significant gain or loss on re-consolidation may be resulted with reference to the difference between then fair value of the equity interest in GZ Zheng Da and then carrying amounts of respective assets and liabilities of GZ Zheng Da. If the equity interest in GZ Zheng Da is realised, a realised gain or loss may be resulted with reference to then fair value of the entity interest in GZ Zheng Da and the net consideration to be received by the Group upon realisation.

GZ Zheng Da was used to contribute up to about 50% of the Group's consolidated revenue in the past years until its wholesale mall was demolished for re-development purpose in 2018. Since then, the re-development site had been leased to a third party for licensed carpark operation and GZ Zheng Da generated minimal revenue which represented less than 10% of the Group's consolidated revenue. Accordingly, the Directors are of the view that the derecognition of GZ Zheng Da from the Group with effect from May 2023 did not have material impact to the Group's revenue for the year ended 31 December 2023 and expect that there would not be material impact to the Group's revenue for subsequent financial years until and when GZ Zheng Da is re-consolidated to the Group once the uncertainty of the liquidation threat is being cast away by law or remote and unlikely so that the Group is able to obtain the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements*.

The fair value of the equity interest in GZ Zheng Da was determined based on discounted net realisation value (i.e., discounted cash flow method from realisation of assets and settlement of liabilities of GZ Zheng Da). In determining the fair value of the equity interest in GZ Zheng Da, the Directors had taken into accounts: (i) the fair values of the underlying major assets with repossession discount and liabilities of GZ Zheng Da; (ii) relevant expenses, payments and tax for disposal of the assets, in particular, the properties, according to the prevailing tax rules and other relevant law and regulations; (iii) the timing to recover the investment, and (iv) the discount rate.

Liquidity and Financial Resources

During the year, the Group's operations were financed mainly by cash flows generated from business operations and borrowings. The Group's net cash flows from operating activities during the year were HK$24,263,000 (2022: HK$26,456,000).

As at 31 December 2023, the Group had cash and bank balances of HK$90,761,000 (2022: HK$84,874,000).

As at 31 December 2022, the Group had outstanding borrowings of HK$72,297,000 representing a loan from a director. The balance was reclassified to an amount due to a director during the year ended 31 December 2023. The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio was 0.10 as at 31 December 2023 (2022: 0.04), calculated based on the Group's loan from a director of Nil (2022: HK$72,297,000) and an amount due to a director of HK$148,183,000 (2022: HK$113,915,000) over total assets of HK$1,496,606,000 (2022: HK$4,415,959,000). The Group maintained a relatively low gearing ratio in the past years. The Group's financial resources are able to meet its capital expenditure and working capital requirements for coming twelve months from the date of this announcement.

Grant of Share Options

On 2 December 2022, it was announced in the Company's announcement (the "Share Option Announcement") that the Company granted 60 million share options to 12 grantees at an exercise price of HK$0.09 per share pursuant to the terms of the Company's share option scheme adopted on 19 December 2012 (the "Share Option Scheme"). 55 million share options were exercised prior to 31 December 2022 raising a gross proceed of HK$4.95 million (before expenses) and 55 million new shares were issued and allotted to the option holders on 9 January 2023. Further details of the share option grant were disclosed in the Share Option Announcement.

The Share Option Scheme was lapsed on 19 December 2022 but 5,000,000 share options granted under the Share Option Scheme would remain exercisable pursuant to the terms of the said scheme.

FUND RAISING ACTIVITIES

On 15 April 2020, it was announced in the Group's announcement (the "New Issue Announcement") that the Company entered into a subscription agreement (the "Subscription Agreement") with Link Tide Investments Limited, a private company incorporated and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate granted on 18 June 2019 (the "New Issue"). All conditions precedent as set out in the Subscription Agreement were satisfied and the New Issue was completed on 27 April 2020. Further details of the New Issue were disclosed in the New Issue Announcement.

The net proceeds raised from the New Issue applied up to 31 December 2023 are as follows:

Intended use of the net proceeds as stated in the New Issue Announcement			Proceeds utilised as at 31 December 2023	Proceeds unutilised as at 31 December 2023	
Category	**Net amount** *(HK$ in million)*	**Percentage**	**Net amount** *(HK$ in million)*	**Remaining amount** *(HK$ in million)*	**Expected schedule of use**
Redevelopment costs of redevelopment project in Guangzhou, Mainland China	12.0	74.5%	–	12.0	On or before 31 December 2024
General working capital	4.1	25.5%	4.1	–	
Total	**16.1**	**100.0%**	**4.1**	**12.0**	

The Group held the unutilised net proceeds in short-term deposits with banks as at 31 December 2023.

Following the derecognition of GZ Zheng Da from the Group resulting in GZ Zheng Da not being regarded as a subsidiary of the Group, the Directors will consider if the intended use of proceeds of HK$12 million originally assigned for costs of the re-development project of GZ Zheng Da should be re-allocated for other purposes or not. Further announcement will be made once a decision is made by the Company.

BUSINESS REVIEW

The Group is principally engaged in property development, investment and management businesses in Mainland China. On an ongoing basis, the Group also explores investment and business opportunities in "novel and quality productivity (新質生產力)" related projects.

Property Investment

The Group's property interest in Chongqing is situated at Chaotinmen, Yuzhong District, Chongqing (重慶市渝中區朝天門). Guang Yu Square is a 15-storey commercial building with a total gross floor area of about 49,400 square metres, out of which the Group owns portion of Basement, Levels 1 to 4, Levels 8 and 11 with total gross floor area of about 24,400 square metres. The property, which has been fully refurbished in 2016, is presently a multi-floor shopping mall focusing in wholesale and retailing of men's wear and footwear. There are about 50-70 shops per level with shop area ranging from 20–60 square metres per shop. Most shops are leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The shopping mall (the floors owned by the Group) is almost fully occupied and shop turnover rate is maintained at a relatively low level. Given Chaotinmen has been one of the major clothing distribution points in Chongqing for nearby cities and the Three Gorges region (三峽地區) for decades, Guang Yu Square is one of the most popular men's wear and footwear wholesale points in the region.

For the year ended 31 December 2023, the Gang Yu Square provided a steady cash flow and substantiated the working capital requirements of the Group. As a result, the Group recorded an adjusted EBITDA of HK$6 million for 2023. Given the prime location of the investment property in the central business district (CBD) of Chongqing, the Directors will strive to enhancing the property's competitive advantages and is confident that it will continue to provide a steady revenue to the Group in the foreseeable future.

Property Development

GZ Zheng Da, the Group's former subsidiary, had a property interest is situated at Yuexiu District, Guangzhou (廣州市越秀區). The development site, previously named as Metropolis Shoes City (廣州大都市鞋城) is located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Lane (謝恩里) in Yuexiu District which is within walking distance of about 3 minutes to the Old Hall (舊館) of the Canton Fair (廣州交易會), which was once the only export window in Mainland China before its Reform and Open Door Policy (改革開放政策) implemented in 1978 and within walking distance of about 5 minutes to the riverbank of the Pearl River (珠江), the icon of Guangzhou.

As to-date, except for one block of building remained not yet surrendered (尚未完成拆遷) and a few shops next to the premise continued to operate business as usual, the Metropolis Shoes City was demolished and the development site was leased to a third party for licensed carpark operation.

Pending to the surrender of the last block of a 7-storey building being occupied by an individual owner (小業主), the re-development project is intended to be developed into a 22-storey versatile grade A commercial building complex with twin towers and 3-level of basement for wholesale and exhibition hall facilities, office and service apartment uses with ancillary facilities such as carpark and loading/unloading bays with total gross floor area of about 234,000 square metres.

According to the latest construction schedule (assuming construction commences in the first quarter of 2025), it is expected that the development project will take about four years and be completed by two phases, the first of which will be completed in late 2027 and the second stage will be completed in first quarter of 2029. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new commercial complex will commence business and generate rental revenue to the Group at its earliest in early 2028.

Properties Held for Sale

GZ Zheng Da, the Group's former subsidiary, had a portfolio of about 190 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 11,000 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units to GZ Zheng Da for demolition of the development site in Yuexiu District but remained vacant or available-for-sale as at to-date.

Current Status of GZ Zheng Da

The registration status (登記狀態) of GZ Zheng Da per the official record registered at the Guangzhou Municipal Administration for Market Regulation (廣州市市場監督管理局) remained as "Enterprise in Operation (in Business) (在營(開業)) as to-date and Ho Kam Hung, an executive Director, had been retaining as the authorised representative since its establishment in 1993.

Notwithstanding the New Liquidation Order is in force, GZ Zheng Da's operation is as usual and the demolition permit (房屋拆遷許可證) was renewed in December 2023, (renewable annually) to the effect that GZ Zheng Da was permitted to continue the demolition and relocation till December 2024. The re-development site was leased to a third party for licensed carpark operation. Further details of the re-development plan of GZ Zheng Da are disclosed in the section headed "Property Development" above.

The Directors would like to draw its shareholders' attention that:

(i) there was no change in the Group's effective interest (i.e., 25%) in HK Zheng Da (which in turn holds 100% equity interest in GZ Zheng Da) (a) before and after the derecognition of GZ Zheng Da from the Company's consolidated financial statements with effect from 15 May 2023; (b) as at 31 December 2023; and (c) as to-date;

(ii) HK Zheng Da, which held 100% equity interest in GZ Zheng Da, retained day-to-day operating and financing activities of GZ Zheng Da as to-date and HK Zheng Da would maintain such activities in GZ Zheng Da in the foreseeable future;

(iii) there was no change in the legal titles of the underlying assets of GZ Zheng Da (primarily two parcels of land pending for re-development and a portfolio of about 190 residential units) as to-date and any dispute (if any) to this by third parties will be subject to final and absolute outcome of legal proceedings (not sole discretion of the liquidator) which are expected to last for a couple of years at least; and

(iv) GZ Zheng Da's business remained usual as to-date and its operation will remain on track in the foreseeable future.

LIQUIDATION PETITION AGAINST GZ ZHENG DA

Background of the "Liquidation Petition"

Background of the "Liquidation Petition" against GZ Zheng Da, a former subsidiary of the Group, which had been initiated since 2009, and its lawful authority in question were disclosed in the Company's annual report for the year ended 31 December 2022 (the "Annual Report 2022").

In brief, Yuefang PE, a third party who was neither the registered equity holder nor creditor of GZ Zheng Da, filed a questionable liquidation plead against GZ Zheng Da at the Guangzhou Court in January 2009 on the ground that GZ Zheng Da had triggered the event of default of "company dissolution" (出現解散事由) but this event of default *(without prejudice)* had never been put forward to court for adjuration separately as required by law.

The developments of the "Liquidation Petition" against GZ Zheng Da since the Guangzhou Court granted a written judgement (民事裁定書) dismissing the "Liquidation Petition" pleaded by Yuefang PE in May 2021 are summarised below.

The Liquidation Dismissal Order

In May 2021, GZ Zheng Da received a written judgement from the Guangzhou Court. The written judgement granted an order to the effect that the "Liquidation Petition" pleaded by Yuefang PE was turned down (駁回強制清算申請裁定) (the "Liquidation Dismissal Order (清算駁回裁定)") on the ground that "the two joint venture parties had major disputes whether GZ Zheng Da had been dissolved, regarding major assets of, and interests in the subject company, and such disputes had never been ascertained by trial or arbitration (雙方對於廣州正大是否發生解散事由、公司主要財產以及公司權益尚有較大爭議，且爭議至今未經訴訟或者仲裁予以確認)".

In the Liquidation Dismissal Order,

(i) the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and HK Zheng Da had 100% equity interest in GZ Zheng Da. This statement affirmed that GZ Zheng Da, the appellee (被清算企業), remained undissolved and Yuefang PE, the applicant (清算呈請人), was not qualified to plead for compulsory liquidation in the capacity as an equity holder of GZ Zheng Da as at the date of plead (清算呈請日); and

(ii) as the ruling was not derived from an appeal lodged by the appellee, it indicated that the Guangzhou Court rectified (自糾) its earlier decision made on appointing the liquidator (清算組) for GZ Zheng Da and admitted that such decision made was, among other things, not in accordance with then prevailing compulsory liquidation law and regulations for GZ Zheng Da.

The Company was pleased that the court ruled that Yuefang PE did not fulfill the pre-requisites (先決條件) for pleading a liquidation petition against GZ Zheng Da in January 2009.

Yuefang PE submitted an appeal against the Liquidation Dismissal Order at the Guangdong Court as permissible by law in August 2021. The appeal was heard at the Guangdong Court in January 2022. Ruling was made in May 2023, details of which are disclosed below.

The Claim Dismissal Order

In July 2021, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order (the "Claim Dismissal Order (索償駁回裁定)") to the effect that the pleads made by Yuefang PE were all turned down and the pleads included, but not limited to:

(i) requesting the court to affirm the Sino-foreign co-operative joint venture agreement executed between GZ Zheng Da and Yuefang SoE in 1993 be expired and terminated on 31 December 2008;

(ii) requesting the court to affirm all remaining assets of GZ Zheng Da (primarily two parcels of land situated in Yuexiu District, Guangzhou) be allocated to Yuefang PE but not HK Zheng Da via liquidation procedures; and

(iii) demanding HK Zheng Da to pay Yuefang PE RMB450 million (equivalent to approximately HK$495 million as at 31 December 2023) as the possession fee of land use rights (土地使用權佔用費) owned by GZ Zheng Da for the period from 1 January 2009 up to 30 September 2017.

The ruling was made based on the grounds, in brief, that "the pleads constituted double jeopardy and were against the relevant provisions of the Companies Law of The People's Republic of China (the "Companies Law《公司法》"), and Yuefang PE was not the owner of the land use rights of the subject land in dispute with any kind of right and hence was not the qualified litigant (訴求構成重覆起訴，亦不符合《中華人民共和國公司法》相關規定，而越房私企並非涉案地塊土地使用權的所有權人因而不具起訴主體資格).

In the Claim Dismissal Order, the Guangdong Court ascertained that Yuefang PE was not the owner of the subject land registered under the name of GZ Zheng Da with any kind of right (土地所有權人), which included, but not limited to, rights of possession, use, income and disposition.

In December 2021, the Guangdong Court issued the Certificate of Verdict Validity (裁判文書生效證明) confirming the Claim Dismissal Order had become legally effective from 2 August 2021.

The Company was pleased to acknowledge receipt of the Claim Dismissal Order ruling that Yuefang PE did not possess the pre-requisites for pleading the aforesaid claims against GZ Zheng Da and HK Zheng Da.

The Rescission Order

In June 2023, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order to the effect that (i) the Liquidation Dismissal Order granted by the Guangzhou Court was rescinded (予以撤銷); and (ii) the Guangzhou Court was ordered to proceed the case (指令廣州市中院審理本案) (the "Rescission Order (撤銷駁回裁定)").

In the Rescission Order, the Guangdong Court concurred with the facts testified by the Guangzhou Court (對廣州市中院查明的事實予以確認) but was of the view that "the equity partners of GZ Zheng Da should disband in accordance with the liquidation procedures given their conflicts were significant and the co-operative objective had been lapsed for a prolonged period as well as the operational management had been in deadlock. The joint venture partners should proceed legal actions via the liquidation procedures to solving mutual disputes in specific assets allocation in accordance with their respective joint venture interests (廣州正大的股東之間矛盾分歧重大，合作目的早已落空，公司經營管理陷入僵局，應當通過清算程序有序退出。合作雙方對於合作權益具體分配等事項的相關爭議，應在公司清算程序中通法律途徑解決)".

The Company was disappointed with surprise to the verdict made by Guangdong Court as it formed an opposite view to those expressed by the Guangzhou Court. Further details pertaining to the legal rationale of the Rescission Order were disclosed in the Company's announcement dated 23 April 2024.

The New Liquidation Order

It appeared to the Company's attention that, inter alia, a public notice pertaining to the compulsory liquidation of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司強制清算公告) was posted by a third party named as "the Liquidator Group of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司清算組)" (the "New Liquidation Notice") in a public domain in Mainland China in August 2023. In the said notice, it was mentioned that the Guangzhou Court had appointed Guangdong Jinzhen Law Firm (廣東金圳律師事務所) (the "New Liquidator") as the liquidator of GZ Zheng Da (the "New Liquidation Order (新清算決定)") pursuant to a plead made by Yuefang PE some 14 years ago and a directive (指令) granted by the Guangdong Court.

Following the issue of a receivership notice (接管公告) in September 2023, neither notice was further issued nor further action was taken by the New Liquidator. The name of liquidator filed on the public corporate website of GZ Zheng Da (*without prejudice*) remained as Guangdong Guoding Law Firm (廣東國鼎律師事務所), the former liquidator which should suspend its duties once the Liquidation Dismissal Order (清算駁回裁定) was granted in May 2021, but not Guangdong Jinzhen Law Firm (廣東金圳律師事務所), the New Liquidator. Pursuant to the provisions of the Companies Law, the liquidation (*if legally enforceable*) was required to be completed within six months from the date of appointment (i.e., 7 February 2024). That was not the case for GZ Zheng Da. GZ Zheng Da had been frustrated by a questionable liquidation for 15 years since 2009.

Actions Taken in Response to the Rescission Order

The Group had taken the following actions in response to the Rescission Order:

(i) In July 2023, GZ Zheng Da, as permissible by law, lodged a re-trial plead (再審申請) at the First Circuit Court of The Supreme People's Court (最高人民法院第一巡迴法庭) (the "Supreme Court (最高院)") in Shenzhen, China to petition for, inter alia, (i) rescinding the Rescission Order granted by the Guangdong Court; and (ii) the case be heard at the Supreme Court. Reply was not yet received from the Supreme Court to-date.

(ii) In October 2023, HK Zheng Da obtained an independent professional opinion confirming that Yuefang SoE's interest in GZ Zheng Da was retained as a state-owned asset by law but not succeeded by Yuefang PE to-date. Based on this new evidence, HK Zheng Da sought clarifications with Yuexiu SoE (the vendor of Yuefang SoE), 廣州市國有資產監督管理委員會 and 廣州市人民政府多個部門, enquiries were in progress but no decisive conclusion was made to-date.

(iii) On an on-going basis, GZ Zheng Da filed complaints to the senior officials of the Guangdong Court and the Guangzhou Court about the prejudiced legal procedures against GZ Zheng Da in the past years. The latest compliant was made in April 2024.

(iv) In April 2024, HK Zheng Da, which held 100% equity interest in GZ Zheng Da, filed a writ at the Guangzhou Court to the effect, inter alia, that:

    (i) to ascertain if Yuexiu SoE (the vendor of Yuefang SoE) retains Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE (the first defendant) and HK Zheng Da (the plaintiff) in the co-operative joint venture of GZ Zheng Da does substantiate;

    (ii) to ascertain if the *jural nexus* between HK Zheng Da and Yuefang PE (the second defendant) in the co-operative joint venture of GZ Zheng Da does not substantiate; and

    (iii) to claim interest loss of RMB41 million from Yuexiu SoE.

    The writ was accepted (受理) by the Guangzhou Court in May 2024 and the hearing date was tentatively fixed in August 2024. GZ Zheng Da joined the writ as an interested party (利害關係人).

(v) On 15 April 2024, the Directors, at the Company's board meeting, concurred with both GZ Zheng Da and HK Zheng Da's views on the Rescission Order as stated above but also were of the view that the operation of GZ Zheng Da might be frustrated by the New Liquidator in the foreseeable future until and when the New Liquidation Order was proved to be inoperative or squashed by law. Meantime, GZ Zheng Da's operation remained usual to-date, as the case for the past 15 years.

In this circumstance, the Audit Committee was of the view that HK Zheng Da might not be able to demonstrate that it could fulfill all the criteria prescribed under HKFRS 10 *Consolidated Financial Statements* in relation to its control over GZ Zheng Da following the appearance of the New Liquidation Order (*without prejudice*). As a result, the Directors, based on the recommendation of the Audit Committee, resolved to derecognise the results of GZ Zheng Da in the consolidated financial statements of HK Zheng Da for the year ended 31 December 2023 upon the issue date of the Rescission Order which was 15 May 2023 and the interest in GZ Zheng Da would be regarded as "Equity interest in an entity at fair value through profit or loss" but not as "a subsidiary" in the Company's consolidated financial statements for the year ended 31 December 2023.

Nevertheless, the Directors expressed that they would consider to re-consolidate GZ Zheng Da as a subsidiary of the Group once and when the uncertainty of the liquidation plead was being cast away indefinitely or remote and unlikely so that the Group is able to obtain the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements*.

(vi) Both GZ Zheng Da and HK Zheng Da confirmed with the Company that they would use their best endeavours to preserve their respective legal rights when the New Liquidator approached them, if any.

(vii) Both GZ Zheng Da and HK Zheng Da had been taking legal, administrative and other practical actions to solve the said deadlock.

Management's Representation

With reference to the facts stated above, the terms of the joint venture agreement (as amended by supplemental agreements) of GZ Zheng Da, and competent legal advice, the Management, HK Zheng Da and GZ Zheng Da jointly represent as follows:

(i) According to the terms of the joint venture agreement (as amended by supplemental agreements) of GZ Zheng Da, HK Zheng Da, as the foreign partner, was required to provide funding of HK$450 million, out of which HK$150 million as paid-up capital contribution, while Yuefang SoE, as the Chinese partner, would provide the Re-Development Outline Plan Permit (建設用地規劃許可證) (which was not transferrable and without right of deposition by law (依法不得轉讓及沒有處置權)) by means of transferring the identity of the applicant (變更申請人身份) of the subject permit from Yuefang SoE to GZ Zheng Da with the approval of the former Guangzhou Municipal Town Planning Bureau (原廣州市城市規劃局). Other than the former permit, Yuefang SoE was not required to contribute any capital, funding nor land use rights and assets. Moreover, Yuefang SoE would not assume any liability, business risks nor provide any guarantee as well as participate in daily operation of GZ Zheng Da. In return, Yuefang SoE undertook (by execution of supplemental agreements) to surrender all rights of profit sharing (residual assets upon liquidation implied) except for, inter alia, receiving a management fee of RMB10 million payable monthly and a fixed profit sharing amount of RMB38 million upon completion of the re-development project (regardless the project was profitable or not).

(ii) GZ Zheng Da was initially established as a Sino-Foreign Co-Operative Joint Venture by limited liability (有限責任企業法人) under the Sino-Foreign Co-Operative Joint Venture Law of The People's Republic of China (《中華人民共和國中外合作經營企業法》) in 1993. In 2006, GZ Zheng Da was restructured from joint venture enterprise to limited company (有限責任公司) in accordance with then laws and regulations. As such, HK$150 million invested into GZ Zheng Da by HK Zheng Da was certified (驗資) as cash capital contributed by HK Zheng Da while the Re-Development Outline Plan Permit (which was not transferrable and without right of deposition by law) provided by Yuefang SoE was not regarded as "certifiable capital (可予驗資資本)" by law. Accordingly, the equity ratio of HK Zheng Da and Yuefang SoE in GZ Zheng Da was 100% and 0%, respectively, under the Companies Law and this status was registered with the former Guangzhou Municipal Administration for Industry & Commerce Bureau (廣州市工商政管理局). That is, Yuefang SoE (越房國企) remained as a joint venture partner but without capital contribution (合作方但無投入任何資本) but not an equity holder (股份權益持有人) of GZ Zheng Da.

(iii) According to the Provisions of the Supreme People's Court on Several Issues Concerning the Applications of the Companies Law (III) (最高人民法院關於適用《公司法》若干問題的規定 (三)): "if the shareholder not yet fulfils all or part of his obligations to pay up capital or withdraw capital, the company may impose reasonable restrictions on rights of profit sharing, pre-emptive rights of subscribing new shares, rights of residual asset distribution in accordance with articles of association or shareholders' meeting; the People's Courts should not grant consent if the shareholder pleads for squashing of such limitations (股東未履行或者未全面履行出資義務或者抽逃出資，公司根據公司章程或者股東會決議對其利潤分配請求權、新股優先認購權、剩餘財產分配請求權等股東權利作出相應的合理限制，該股東請求認定該限制無效的，人民法院不予支持。).

(iv) According to the Companies Law, the residual assets after debt repayment shall be distributed to shareholders in accordance with their respective paid up capital (清償公司債務後的剩餘財產，有限責任公司按照股東的出資比例分配)." 0% equity holder shall not be entitled to residual asset distribution in any circumstance.

(v) According to the Provisions Concerning the Change of Ownership of Investors of Foreign Invested Enterprises (《外商投資企業投資者股權變更的若干規定》), if there is change in ownership of Chinese investor which investment is financed by stated-owned assets, the fair value of such ownership shall be appraised by state-owned asset appraisal bodies and such appraisal value shall be affirmed by state-owned asset management department; then the affirmed appraisal value shall be regarded as the basis of consideration for transfer of such ownership (以國有資產投資的中方投資者股權變更的，必須經有關國有資產評估機構對需變更的股權進行價值評估，並經國有資產管理部門確認。經確認的評估結果應作為變更股權的作價依據). That is, any detachment of state-owned asset (國有資產剝離) should be subject to independent and separate appraisal and approval of state-owned asset supervising body.

(vi) According to court papers, 惠州市美亞投資有限公司, a private enterprise (民企), acquired the entire interest in Yuefang SoE from Yuexiu SoE in 2007 and the enterprise name was changed from Yuefang SoE to Yuefang PE as a result of corporate restructuring. Whether Yuefang SoE's interest in GZ Zheng Da (i.e. the contingent profit of RMB38 million) as listed in the chattel list for sale (資產出讓清單) had been independently appraised and separately approved by the state-owned asset supervising body is in doubt.

(vii) It appeared that Yuefang SoE's interest in GZ Zheng Da is retained as a state-owned asset of Yuexiu SoE to-date as the conditions of detachment of state-owned asset had yet been fulfilled. It further appears that Yuefang PE was unable to submit the aforesaid documents for substantiating its ownership of GZ Zheng Da at the former Guangzhou Guangzhou Municipal Administration for Industry & Commerce Bureau (原廣州市工商行政管理局) in 2007.

(viii) According to the official record registered at the Guangzhou Municipal Administration for Market Regulation (廣州市市場監督管理局) to-date, the Sino partner of GZ Zheng Da remained as Yuefang SoE (越秀國企), but not Yuefang PE (越房私企), holding 0% equity interest therein.

(ix) The Rescission Order has *jus judicata* (既判力) and hence the New Liquidation Order can only be set aside by an overriding ruling or judgment. As such and in April 2024, HK Zheng Da initiated a plead at the Guangzhou Court to ascertaining if Yuexiu SoE retained Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE and HK Zheng Da in GZ Zheng Da does substantiate. The New Liquidation Order will be void and inoperative as permissible by law if the plead is ascertained by the court. HK Zheng Da is confident in obtaining a favourable ruling for this plead.

(x) If in the unlikely event the New Liquidation Order proceeds and the New Liquidator prepares the liquidation plan according to the provisions of the Companies Law (*without prejudice*), Yuefang PE shall not be entitled to any residual asset distribution as its equity interest in GZ Zheng Da is 0% on record. If this is the case, it is uncertain if Yuefang PE will lodge other claim(s) at the court demanding for part of the residual assets. HK Zheng Da expects that such legal proceeding may last for a prolong period, say three to five years, and such claim, if made, is not substantiated and without legal grounds.

(xi) According to the terms of the joint venture agreement of GZ Zheng Da (as amended by supplemental agreements), the Chinese partner of GZ Zheng Da is entitled to a fixed profit sharing of RMB38 million upon completion of the re-development. As the re-development may be interrupted due to the liquidation, it is questionable if this fixed profit sharing shall be regarded as "residual asset" for distribution to the Chinese partner and the outcome to this may be subject to court's ruling. HK Zheng Da is unable to assess the outcome to this potential claim at this stage.

(xii) It appears that if GZ Zheng Da has breached the event of default of "company dissolution" (解散事由) which constituted the primary pre-requisite of liquidation by law is questionable as this breach (if taken place) has not yet been adjudicated by court separately. GZ Zheng Da believes that this breach never happened as (i) the operating period as prescribed by articles of association of GZ Zheng Da has been renewed for 15 years by unanimous board resolution (including votes representing Chinese partner's interest) and this resolution is valid and binding unless vetoed by court's ruling; and (ii) GZ Zheng Da has filed the operating period extension application with Guangzhou Municipal Foreign Economic and Trade Commission (廣州市對外經濟貿易委員會) ("Trade Commission"), the governing body, prior to the expiry of the operating period. In accordance with then legal provisions and administrative procedures, the renewal application should be regarded as "being approved" if the Trade Commission did not issue "objection letter" upon acknowledgment receipt (受理) of renewal application. No objection letter received by GZ Zheng Da so far. Whether the acknowledgment receipt is valid legal evidence for operating period renewal had never been adjudicated by court. GZ Zheng Da has put this argument in the re-trial plead at the Supreme Court in July 2023. Reply was not yet received from the Supreme Court so far.

MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition, details of which were disclosed in the Company's Annual Report 2022. Latest development of the Acquisition (as defined in the Annual Report 2022) since 30 June 2023, the date of the Company's announcement pertaining to the previous extension agreement summarised below.

Notwithstanding GZ Zheng Da, the underlying operating company of HK Zheng Da, had been frustrated by a questionable liquidation plead for years, the Company reiterated that the liquidation plead was not substantiated by both facts and law and hence was confident that the action would be inoperative or squashed by law in the foreseeable future (*say, about one year*). On this basis, the Group entered into a new extension agreement on 24 June 2024 to further extend the Long Stop Date (as defined in the Annual Report 2022) to 30 June 2026 with an aim of arriving revised terms for the Acquisition. If a revised timetable is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowing, private-equity funding or a combination of the four kinds. If in case the Acquisition lapses on 30 June 2026, no party shall be liable to each other. Further details of the 2024 Extension Agreement were disclosed in the Company's announcement dated 24 June 2024.

MATERIAL LITIGATION UPDATE

Following the derecognition of GZ Zheng Da from the Group in May 2023, the Group did not engage in new litigation or had litigation outstanding during the year ended 31 December 2023.

Subsequent to 31 December 2023, HK Zheng Da, a subsidiary of the Group, initiated a litigation against Yuexiu SoE at the Guangzhou Court in April 2024, details of which are disclosed in the section headed "Actions Taken in Response to the Rescission Order" above.

OUTLOOK

Following restriction policies on residential unit purchases being uplifted in most major cities nationwide, both property users and investors initiated their purchase incentives from scratch in the second quarter this year. Given the domestic consumer market in Mainland China remains relatively weak as compared to five years ago, it is perceived that the property market nationwide remains on consolidation. It is anticipated that it may take a couple of years for the property market to bouncing from the bear market. The Directors will monitor the market trend closely and regulate the Group's property portfolio and re-development schedules.

Since this March, the Central Government has been promoting the campaign of "moving forward and accelerating the developments of 'novel and quality productivity' (推動新質生產力加快發展)". "Novel productivity" refers to innovative ideas of products and production workflow while "quality productivity" refers to more cost efficient and more environmentally friendly products and production flow. The goal for novel and quality productivity may not be capital intensive. The Directors consider that conventional production chain upgrading and re-modelling will also meet the objective of "novel and quality productivity". To embrace this new wave of opportunities, the Directors will actively explore appropriate investment or business projects with reasonable capital budget to achieve the goal of "novel and quality productivity".

In Hong Kong, amid interest rate remains at record high level, both re-export trading and domestic consumer market continue the declining trend while the property market remains on consolidation. It is anticipated the downward trend may bounce back once the US Federal Reserve initiates the interest cut cycle before year end or early next year. Hong Kong is now under more secured national security umbrella following the promulgation of "Article 23" of the Basic Law this first half year, it is generally perceived that, amid Hong Kong migrates "from the stability stage to prosperity stage" (由治及興), Hong Kong will be able to remap its advantages at the junction of transformation to a new chapter of economy. The Directors fully support the Hong Kong Administration to govern in accordance with the Basic Law (全力支持香港特區政府依法施政).

Taking this opportunity, the Directors pay tribute to the 75 years' anniversary of the establishment of The People's Republic of China.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company complied with the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year, except for the following deviation:

Code Provision A.4.2

The second part of Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the bye-laws of the Company, the Managing Director of the Company was not subject to retirement by rotation. However, the Managing Director of the Company voluntarily retired by rotation every three years and offered himself for re-election at the Company's general meetings in the past years. The Directors considered that this practice was in line with the spirit of the relevant practice of the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company had adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by its directors. Having made specific enquiry to the Directors, the Company confirmed that the Directors had complied with required standard set out in the Model Code throughout the accounting period covered by the annual report.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's results for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Group's independent auditor, Messrs. Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Messrs. Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by Messrs. Ernst & Young on this preliminary announcement.

AUDIT COMMITTEE

The Annual Results had been reviewed by the Audit Committee of the Company.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Group for the year ended 31 December 2023 containing all information required by Appendix 16 of the Listing Rules will be sent to the shareholders of the Company as well as released on the web site of the Stock Exchange as soon as practicable.

RESUMPTION OF TRADING OF THE COMPANY'S SHARES

Trading in the shares of the Company on the Stock Exchange had been suspended since 9:00 a.m. on 2 July 2024. Following the anticipated publication of the preliminary results of the Company for the year ended 31 December 2023, the Company made an application to the Stock Exchange for the resumption of trading in the Company's shares on the Stock Exchange with effect from 9:00 a.m. on 2 July 2024.

By Order of the Board
Ho Kam Hung
Executive Director

Hong Kong, 28 June 2024

As at the date of this announcement, the board of directors of the Company comprises: (i) Ho Kam Hung as executive director; (ii) Young Kwok Sui as non-executive director; and (iii) Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai as independent non-executive directors.