



Zhongtian International Limited

中天國際控股有限公司*

Incorporated in the Cayman Islands with limited liability

Stock Code: 02379

* for identification purposes only



Interim Report

2016

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHEN Dezhao (*Chairman*)
ZHAO Yun

INDEPENDENT NON-EXECUTIVE DIRECTORS

GUO Qiang
CHEN Wen Ping
LIU Jin Lu

COMPANY SECRETARY

TAI Man Hin, Tony (CPA)

AUDIT COMMITTEE

CHEN Wen Ping (*Chairman*)
GUO Qiang
LIU Jin Lu

REMUNERATION COMMITTEE

CHEN Wen Ping (*Chairman*)
CHEN Dezhao
GUO Qiang

NOMINATION COMMITTEE

CHEN Dezhao (*Chairman*)
CHEN Wen Ping
GUO Qiang

LEGAL ADVISORS AS TO HONG KONG LAWS

Loong & Yeung Solicitors

AUTHORISED REPRESENTATIVES

CHEN Dezhao
ZHAO Yun

STOCK CODE

02379

COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F
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29 Queen's Road Central
Hong Kong

AUDITORS

Crowe Horwath (HK) CPA Limited

PRINCIPAL BANKERS

China Construction Bank,
No.3 branch, Shinan District, Qingdao
Hua Xia Bank
Nanjing Road Sub-branch
Qingdao
The Hongkong and Shanghai Banking
Corporation Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, Town George
Grand Cayman KY1-1110
Cayman Islands

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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No. 38 Shandongtou Road
Laoshan District
Qingdao City
Shandong Province
The People's Republic of China

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board (the “Board”) of directors (the “Director(s)”) of Zhongtian International Limited (the “Company”, together with its subsidiaries, collectively known as the “Group”) is pleased to present the Group’s unaudited consolidated results for the six months ended 30 June 2016 (the “Reporting Period”), together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Unaudited Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Revenue	2	11,248	2,813
Cost of sales		–	(2,133)
Gross profit		11,248	680
Other operating income	3	38,482	202
General and administrative expenses		(10,689)	(1,585)
Profit/(loss) from operations		39,041	(703)
Finance costs		(7,407)	–
Profit/(loss) before taxation	4	31,634	(703)
Income tax expenses	5	(1,037)	–
Profit/(loss) for the period		30,597	(703)
Attributable to:			
Equity holders of the Company		30,597	(703)
Total comprehensive income/(loss) for the period		30,597	(703)
Attributable to:			
Equity holders of the Company		30,597	(703)
Earning/(loss) per share (RMB Cents)	7		
– Basic		9.6	(0.29)
– Diluted		9.6	(0.29)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		8,628	8,527
Investment properties	8	462,600	42,600
Land under development	9	130,000	–
		601,228	51,127
CURRENT ASSETS			
Trade and other receivables	10	166,692	10,191
Amount due from a director		117	115
Cash and cash equivalents		4,602	118,236
		171,411	128,542
CURRENT LIABILITIES			
Trade and other payables	11	69,932	8,984
Amounts due to directors		15	15
Amount due to a substantial shareholder		11,938	–
Income tax payable		1,397	1,397
Bank and other borrowings	12	210,598	1,800
		293,880	12,196
NET CURRENT (LIABILITIES) ASSETS			
		(122,469)	116,346
TOTAL ASSETS LESS CURRENT LIABILITIES			
		478,759	167,473

	Notes	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Bank and other borrowings	12	89,850	15,750
Deferred tax liabilities		108,607	10,506
		198,457	26,256
NET ASSETS			
		280,302	141,217
CAPITAL AND RESERVES			
Share capital	13	3,667	2,634
Reserves		276,635	138,583
TOTAL EQUITY			
		280,302	141,217

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	(Unaudited)				
	Share capital	Share premium	Property revaluation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	2,243	179,803	1,652	(76,462)	107,236
Net loss for the period	-	-	-	(703)	(703)
At 30 June 2015	2,243	179,803	1,652	(77,165)	106,533
At 1 January 2016	2,634	220,979	1,652	(84,048)	141,217
Net profit for the period	-	-	-	30,597	30,597
Issuing of ordinary shares	1,033	107,455	-	-	108,488
At 30 June 2016	3,667	328,434	1,652	(53,451)	280,302

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2016

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	13,297	48,974
Investing activities		
Net cash outflows on acquisition of subsidiaries	(19,263)	–
Net cash used in investing activities	(19,263)	–
Financing activities		
Proceeds from bank and other borrowings	30,000	–
Repayment of bank and other borrowings	(130,046)	–
Interest paid	(7,407)	–
Net cash used in financing activities	(107,453)	–
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(113,419)	48,974
Cash and cash equivalents at beginning of the period	118,236	13,499
Effect of foreign exchange rate changes	(215)	–
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY CASH AND BANK BALANCES	4,602	62,473

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the unaudited interim condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2015.

In preparing the interim condensed consolidated financial statements, the Board has considered the Group’s future liquidity in light of the fact that the Group had net current liabilities of approximately RMB122,469,000 as at 30 June 2016. The Board, after due and careful enquiry, are of the opinion that taking into account the financial resources available to the Group including its internally generated funds, cash and cash equivalents on hand and the undertaking from the controlling beneficial owner, Chen Jun, to support the Group financially on an ongoing basis, and in the absence of unforeseen circumstances, the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next 12 months from the date of this report. Accordingly, the Board is of the view that it is appropriate to prepare these interim condensed consolidated financial statements on a going concern basis.

1. BASIS OF PREPARATION *(Continued)*

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) and amendments to HKFRSs issued by the HKICPA for the first time for the current period's unaudited interim condensed consolidated financial statements:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective for the accounting period of these financial statements.

2. REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group's revenue represents external customers' income earned from the sale of intelligent electronic products and modern office furniture products and property and car park rental income.

(b) Business segments

During the Reporting Period, the Group was principally engaged in two major business segments, which were trading and property investment.

2. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Business segments *(Continued)*

- (i) Trading: sale of intelligent electronic products and modern office furniture products in the People Republic of China (“PRC”).
- (ii) Property investment: this segment offer office premises and car parks to generate rental income and to gain from the appreciation in the properties’ values in the long term. Currently, the Group’s investment properties are located entirely in the PRC.

Business segments for the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue		
Trading	–	2,344
Property investment	11,248	468
	11,248	2,813
Segment results		
Trading	–	412
Property investment	48,432	468
	48,432	880
Unallocated other operating income	1,298	2
Unallocated corporate expenses	(10,689)	(1,585)
Finance cost	(7,407)	–
Profit/(loss) before income tax expenses	31,634	(703)
Income tax expenses	(1,037)	–
Profit/(loss) for the period	30,597	(703)

2. REVENUE AND SEGMENT INFORMATION *(Continued)*

(c) Geographical segments

No geographical segments information of the Group is shown as the Group's operations, sales by geographical market are located in the People's Republic of China (the "PRC").

3. OTHER OPERATING INCOME

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Interest income on bank deposits	5	2
Income from forfeiture of trade deposits	–	200
Sundry income	1	–
Interest income on money lending	1,292	–
Gain on bargain purchase from business combination (Note 14)	37,184	–
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	38,482	202

4. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax has been arrived at after charging:

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Finance cost	7,407	–
Cost of inventories sold	–	2,133
Depreciation of property, plant and equipment	97	92

5. INCOME TAX

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Current Tax	–	–
Deferred Tax	(1,037)	–
	(1,037)	–

No provision for Hong Kong Profits Tax is made as the Group has no assessable profit for both periods.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC Enterprise Income Tax of the Group's subsidiaries is 25% (six months ended 30 June 2015: 25%).

On 23 March 2016, China's Ministry of Finance and State Administration of Taxation jointly issued Circular Caishui [2016] 36 which contains the valued-added tax ("VAT") rates and rules applicable to all of the industries which are transitioning from Business Tax to VAT with effect from 1 May 2016, including the real estate sector. The VAT rate for real estate sector is 11%, with grandfathering rules applicable to entities with properties acquired before 1 May 2016, for which 5% simplified VAT method would be applied on gross revenue from leasing or net gain from sales of properties.

Upon the enactment of the new VAT rule with effect from 1 May 2016, an additional deferred tax liability of RMB1,037,000 in relation to the new VAT rule on the revaluation surplus of the investment properties, has been recognised for the six months ended 30 June 2016.

6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

7. EARNING/(LOSS) PER SHARE

The calculation of basic earning/(loss) per share of the Company (the “Share(s)”) is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2016 of approximately RMB30,597,000 (six months ended 30 June 2015: loss of approximately RMB703,000) and weighted average number of ordinary Shares in issue during the six months ended 30 June 2016 of 317,124,190 (six months ended 30 June 2015: 238,509,122).

There were no dilutive potential Shares for the six months period ended 30 June 2016 and 30 June 2015, and diluted loss per Share is the same as basic loss per share.

8. INVESTMENT PROPERTIES

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Investment properties, at fair value	462,600	42,600

The investment properties are located in Qingdao, the PRC. No fair value adjustment was considered necessary by the directors of the Company for the six month ended 30 June 2016.

As at 30 June 2016, the investment properties are pledged for bank and other borrowings of the Group (Note 12).

9. LAND UNDER DEVELOPMENT

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Land under development, at fair value	130,000	–

The leasehold land is situated in Qingdao, PRC and held under a medium term lease of 40 years. The land was acquired through acquisition of subsidiaries (Note 14) and is held for development into an office complex as investment properties for rental purposes.

As at 30 June 2016, the land use right amounting to RMB130,000,000 was pledged for the bank and other borrowings (Note 12).

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables of RMB166,692,000 (31 December 2015: RMB10,191,000) include trade receivables of RMB1,899,000 (31 December 2015: RMB6,983,000).

The Group has a policy of allowing a credit period ranging from 60 to 180 days.

The aging analysis of trade receivables net of provision for impairment at the end of the Reporting Period, based on the invoice date, is as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
0-30 days	–	–
31-60 days	–	–
61-90 days	–	6
91-180 days	367	–
181-365 days	221	215
Over 365 days	1,311	6,762
	1,899	6,983

11. TRADE AND OTHER PAYABLES

Trade and other payables of RMB69,932,000 (31 December 2015: RMB8,984,000) include trade payables of RMB17,599,000 (31 December 2015: RMB5,193,000).

The aging analysis of trade payables at the end of the Reporting Period, based on the invoice date, is as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
0-30 days	–	–
31-60 days	–	–
61-90 days	–	1,321
91-180 days	–	141
181-365 days	16,675	–
Over 365 days	924	3,731
	17,599	5,193

12. BANK AND OTHER BORROWINGS

As at 30 June 2016, the Group had bank and other borrowings as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Secured bank borrowings	159,150	17,550
Secured other borrowings	141,298	–
	300,448	17,550

12. BANK AND OTHER BORROWINGS *(Continued)*

At 30 June 2016, interest-bearing bank and other borrowings were due for repayment as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Carrying amounts repayable:		
Within 1 year	210,598	1,800
After 1 year but within 2 years	14,300	1,800
After 2 years but within 5 years	42,900	5,400
After 5 years	32,650	8,550
	300,448	17,550
Less: Current portion	210,598	(1,800)
Non-current portion	89,850	15,750

As at 30 June 2016, bank and other borrowings were interest bearing at 2.5% to 12.5% per annum.

Bank borrowings amounting to RMB16,650,000 were secured by investment properties (Note 8), leasehold land held under operating lease and buildings. Bank borrowings amounting to RMB142,500,000 were secured by investment properties (Note 8) or/and guaranteed by Mr. Chen Jun, a substantial shareholder or Mr. Chen Jun and his spouse.

Other borrowings amounting to RMB1,298,000 were provided by an independent third party and were secured by the pledge of the issued shares of a subsidiary of the Group, Qingdao Zhongtian Enterprise Development Company Limited.

Other borrowings amounting to RMB140,000,000 were provided by microfinance companies, which are licensed financial institutions regulated by China Banking Regulatory Commission, were secured by investment properties (Note 8) and land use right (Note 9) or/and guaranteed by Mr. Chen Jun and his spouse.

13. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2016 (Unaudited) '000	31 December 2015 (Audited) '000	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000	10,000,000	100,000	100,000
Issued and fully paid:				
At 1 January 2016/2015	286,209	238,509	2,634	2,243
Placing of ordinary share	–	47,700	–	391
Issuing of ordinary share	124,000	–	1,033	–
At 30 June 2016/31 December 2015	410,209	286,209	3,667	2,634

14. ACQUISITION OF SUBSIDIARIES

On 13 November 2015, the Group entered into a sale and purchase agreement (the “SPA”) with Mr. Chen Jun, a substantial shareholder, based on which, the Group has agreed to acquire Golden Century Trade Limited and its subsidiaries (the “Target Group”), which are engaged in leasing, investment and development of properties (the “Acquisition”). As at the date of the SPA, Mr. Chen Jun was the only owner of the Target Group and the total consideration for the Acquisition was agreed to be RMB155,000,000, for which RMB135,000,000 will be paid by issuing 124,000,000 ordinary shares of the Company at a price HK\$1.35 per ordinary share and RMB20,000,000 will be paid by cash.

At the Company’s extraordinary general meeting on 22 March 2016, the Acquisition had been approved by the independent shareholders of the Company. The Acquisition was completed on 31 March 2016 (the “Completion Date”) and, since then, the entities within the Target Group have become wholly-owned subsidiaries of the Company. The Company considers the Acquisition, for which the Company has retained the management team of the Target Group who have profound management expertise in leasing and managing commercial properties after the completion, would be an opportune investment for the Group and would bring synergy and enhance the competitive edge of the Group.

14. ACQUISITION OF SUBSIDIARIES (Continued)

The unaudited values of assets and liabilities of the Target Group at the Completion Date, are as follows:

	Amounts recognised (at fair value) (unaudited) RMB'000
Net assets acquired of	
Property, plant and equipment	199
Investment properties	420,000
Land under development	130,000
Cash and cash equivalents	737
Trade and other receivables	171,957
Trade and other payables	(52,082)
Other tax payable	(18,308)
Amount due to an ex-shareholder	(10,000)
Bank and other borrowings	(380,006)
Deferred tax liabilities	(97,065)
<hr/>	
Net identifiable assets and liabilities	165,432
Gain on bargain purchase from business combination	(37,184)
<hr/>	
Total consideration	128,248
<hr/>	
Consideration transferred	
– by shares (Note (i))	108,248
– by cash	20,000
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	128,248
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Note:

- (i) The share consideration was satisfied by an issuance of 124,000,000 new ordinary shares of the Company with a par value of HK\$0.01 each, for approximately HK\$130,200,000 (equivalent to approximately RMB108,248,000). The fair value of each consideration share was calculated at HK\$1.05, being the closing market price of the ordinary share of the Company on the Completion Date.

14. ACQUISITION OF SUBSIDIARIES (Continued)

The Group incurred transaction costs of approximately HK\$2,777,000 for the Acquisition. Amounts of approximately HK\$1,247,000 and HK\$1,530,000 have been expensed and included in general and administrative expenses in the consolidated statements of profit or loss of the Group for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively.

	Unaudited RMB'000
Analysis of the net outflow of cash and cash equivalents in respect of the Acquisition	
Cash consideration paid	(20,000)
Cash and cash equivalent acquired	737
	<hr/>
Net outflow of cash and cash equivalents in respect of the Acquisition	(19,263)

Since the completion of the Acquisition, the Target Group contributed HK\$10,169,000 to the Group's revenue and a profit of HK\$28,000 to the consolidated statement of profit or loss for the six months ended 30 June 2016.

Had the Acquisition took place at the beginning of the reporting period, the revenue and the profit of the Group for the six months ended 30 June 2016 would have been HK\$21,364,000 and HK\$11,810,000 respectively.

15. COMMITMENTS

At the end of the Reporting Period, the Group had the following commitments:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Authorised but not contracted for in respect of development of the land (Note 9)	184,500	–
Contracted but not provided for in respect of the Acquisition (Note 14)	–	155,000

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board on 26 August 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the Reporting Period, the Group was principally engaged in two major business segments, namely, trading and property investment.

Trading

Trading of intelligent electronic products and modern office furniture products became a business segment with fewer obstructions in the course of transition of the Group's operation towards diversification.

Meanwhile, as the competition in this business segment is keen and the overall cost for exploring new customers is relatively high, the Group strives to preclude this business segment from becoming the only source of income of the Group.

Property Investment

The commercial property rentals in Qingdao City, the People's Republic of China (the "PRC") have continued to rise and the property lease market keeps thriving recently. In previous years, the Group had acquired quality properties with long-term appreciation potentials, and after renovation and rearrangement of their interior layouts, the properties had been leased out during the Reporting Period and generated stable rental incomes. During the Reporting Period, the Group had acquired additional properties in Qingdao City. For details, please refer to the paragraph headed "Substantial acquisition and disposal" in this report.

FINANCIAL REVIEW

TURNOVER AND GROSS PROFIT MARGIN

The Group's total turnover for the six months ended 30 June 2016 was approximately RMB11,248,000, representing an increase of approximately 300% from approximately RMB2,813,000 for the corresponding period ended 30 June 2015. This was mainly attributable to the increase in rental income from the property investment segment. The gross profit margin increased from 24% for the six months ended 30 June 2015 to 100% for the six months ended 30 June 2016. The major reason of such increase was mainly due to the contribution from the property investment segment which had a 100% gross profit margin.

Distribution Costs

During the Reporting Period, the Group postponed all marketing activities due to the lack of large-scale tender projects. There is no distribution cost for the six months ended 30 June 2016 (30 June 2015: Nil).

General and Administrative Expenses

The Group's general and administrative expenses for the six months ended 30 June 2016 were approximately RMB10,689,000 (corresponding period ended 30 June 2015: approximately RMB1,585,000), representing an increase of approximately 574% over the corresponding period ended 30 June 2015. This was mainly attributable to the increase in the general and administration expenses incurred by the Group in respect of the acquisition of the Target Group (as defined in the paragraph headed "Substantial acquisition and disposal" in this report).

Net Profit

During the Reporting Period, the Group recorded a net profit of approximately RMB30,597,000 as compared to the net loss of approximately RMB703,000 for the corresponding period ended 30 June 2015. The turnaround from loss to profit was mainly attributable to (i) a significant increase in the revenue as a result of the rental income from office premises and car park spaces following the completion of the acquisition of the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) by the Company on 31 March 2016; and (ii) a gain on bargain purchase from business combination in relation to the aforesaid acquisition of approximately RMB37,184,000 during the Reporting Period.

BUSINESS REVIEW

Analysis by Business Segment

The Group has been focusing on its property investment segment following the completion of the Acquisition (as defined in the paragraph headed "Substantial acquisition and disposal" in this report). During the Reporting Period, the Group's principal source of income was the rental income derived from its property investment segment, which accounted for 100% of the Group's total turnover. The sales of intelligent electronic products and modern office furniture from the Group's trading segment had not contributed any revenue during the Reporting Period.

During the Reporting Period, all of the Group's income was derived from Shandong Province, the PRC which accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

The Group will continue to focus on its development and sales of intelligent electronic products business, and will endeavour to consolidate its existing customer base as well as to fully explore its profit generation potential.

In the property investment segment, the Group has acquired additional office premises and car park spaces and expects all properties will be leased out and continue to generate rental income for the Group. The rental income is anticipated to increase steadily in the future.

Foreseeing a prosperous commercial estate industry in the PRC in the future and leveraging on its experience in leasing and managing commercial properties with its integrated operation team, the Group will continue to consider seriously the possibility to invest in the operation and management of commercial properties for further development.

DEBTS

As at 30 June 2016, the Group had secured bank borrowings of approximately RMB300,448,000 (31 December 2015: RMB17,550,000).

Save as disclosed above, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease, mortgages or charges.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the sales of information technology products and modern office furniture, costs of business expansion and property investment. The Group principally finances its operation and investment from operating income, internal resources and bank borrowings.

As at 30 June 2016, the Group had cash and bank balances of approximately RMB4,602,000 (31 December 2015: approximately RMB118,236,000) of which 91.5% and 8.5% was held in RMB and HK\$, respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 107.2% (31 December 2015: 12.4%).

During the Reporting Period, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since the Group mainly operates in the PRC, most of the revenue and transactions arising from its operations were settled in Renminbi and the Group's assets and liabilities are primarily denominated in Renminbi, the Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements. The Group had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and had not adopted any currency hedging policy or other hedging instruments during the Reporting Period.

SUBSTANTIAL ACQUISITION AND DISPOSAL

On 13 November 2015, the Company entered into a sale and purchase agreement (the "Sale & Purchase Agreement") with Mr. Chen Jun (the "Vendor"), a controlling shareholder of the Company, pursuant to which the Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) (the "Acquisition") for a consideration of RMB155,000,000, out of which RMB135,000,000 shall be satisfied by way of allotment and issue of 124,000,000 shares of the Company (the "Consideration Shares") at the issue price of HK\$1.35 per Consideration Share and RMB20,000,000 shall be satisfied by cash. Upon completion of the Acquisition, the Company will hold the entire issued share capital of Golden Century Trade Limited (金世紀貿易有限公司) which in turn holds 100% of the equity interest in Qingdao Zhongtian Enterprise Development Company Limited* (青島中天企業發展有限公司), Qingdao Zhongtian Innovation Investment Company Limited* (青島中天創新投資有限公司) and Qingdao Zhongtian Software Park Company Limited* (青島中天軟件園有限公司) via Best Sight Limited (瑋邦有限公司) (collectively, the "Target Group"). The Target Group is principally engaged in the investment and development of the property (the land and the buildings erected thereon located at No. 38 Shandongtuo Road, Laoshan District, Qingdao City, Shandong Province, the PRC) and the land (the piece of land located at No. 877 Huihai Road, Chengyang District, Qingdao City, Shandong Province, the PRC). The Acquisition was approved by the independent shareholders of the Company at the Company's extraordinary general meeting held on 22 March 2016 and the Acquisition was completed on 31 March 2016. The Target Group has become wholly-owned subsidiaries of the Company accordingly.

For further details of the Acquisition, please refer to the announcements of the Company dated 15 December 2015, 22 March 2016 and 31 March 2016, respectively, and the circular of the Company dated 7 March 2016. Save as disclosed above, there was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Reporting Period.

CHARGE ON ASSET AND CONTINGENT LIABILITIES

As at 30 June 2016, the Group had pledged land under development and investment properties of approximately RMB543,831,000 (31 December 2015: RMB51,005,000) to secure the bank borrowings of approximately RMB300,448,000.

Save as disclosed above, the Group had no other material pledge of assets and contingent liabilities as at 30 June 2016.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group had 22 employees (31 December 2015: 9). Most of the Group's employees are based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Reporting Period was approximately RMB650,000 (30 June 2015: approximately RMB363,000).

EVENTS AFTER THE REPORTING PERIOD

The Group does not have any material subsequent event after the Reporting Period and up to the date of this report.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Directors do not recommend payment of any interim dividend for the Reporting Period (six months ended 30 June 2015: Nil).

CORPORATE GOVERNANCE

The Company had complied with all the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) during the Reporting Period.

CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”), comprising three independent non-executive Directors, namely Mr. Chen Wen Ping (Chairman of the Audit Committee), Mr. Guo Qiang and Mr. Liu Jin Lu, had reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim results of the Company for the Reporting Period and this report.

The Audit Committee had held a meeting to review the financial results and reports of the Group for the Reporting Period. Financial controls, internal controls, risk management systems of the Group had also been reviewed by the Audit Committee at the meeting.

The Audit Committee had reviewed this interim report and had confirmed that this interim report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the “Remuneration Committee”) on 25 April 2005, comprising two independent non-executive Directors, namely Mr. Guo Qiang and Mr. Chen Wen Ping, and one executive Director, namely Mr. Chen Dezhao. Mr. Chen Wen Ping serves as the chairman of the Remuneration Committee.

The Remuneration Committee had made recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management remuneration, reviewing and approving management’s remuneration proposal by reference to corporate goals and objectives resolved by the Board. No individual Director or any of his/her associates is allowed to involve in deciding his/her own remuneration.

NOMINATION COMMITTEE

The Company established a nomination committee (the “Nomination Committee”) on 28 March 2012, comprising two independent non-executive Directors, namely Mr. Chen Wen Ping and Mr. Guo Qiang, and one executive Director, namely Mr. Chen Dezhao who serves as the chairman of the Nomination Committee.

During the period, the Nomination Committee had

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
- identified individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assessed the independence of independent non-executive Directors; and
- made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, none of the Directors nor chief executives of the Company had any interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, as far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Positions in ordinary shares of the Company

Name	Capacity/Nature	Number of Shares interested/held	Approximate shareholding percentage
Substantial Shareholder			
Mr. Chen Jun	Interest of a controlled corporation (note 1)	108,042,781	26.34%
	Interest of a controlled corporation (note 2)	124,000,000	30.23%
	Beneficial owner	5,525,000	1.35%
Fine Mean Investments Limited (Note 1)	Beneficial owner	108,042,781	26.34%
Vast Yield Holdings Limited (Note 2)	Beneficial owner	124,000,000	30.23%
Ms. Su Haiqing (Note 3)	Interest of spouse	237,567,781	57.91%



Notes:

- (1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Fine Mean Investments Limited.
- (2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited.
- (3) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, Ms. Su Haiqing is deemed or taken to be interested in all the 237,567,781 Shares in which Mr. Chen Jun is interested.

Save as disclosed above, as at 30 June 2016, the Company had not been notified of any other persons (other than a Director and chief executive of the Company) who had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept under section 336 of the SFO.

By Order of the Board
CHEN Dezhao
Chairman

Qingdao City, Shandong Province, the PRC
26 August 2016