# 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

# 2019
# Interim Report

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# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

CHEN Dezhao *(Chairman)*
CHEN Jun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Chak Kwan
CUI Haitao
LIU Jin Lu

## COMPANY SECRETARY

TAI Man Hin, Tony *(CPA)*

## AUDIT COMMITTEE

CUI Haitao *(Chairman)*
CHAN Chak Kwan
LIU Jin Lu

## REMUNERATION COMMITTEE

LIU Jin Lu *(Chairman)*
CHEN Dezhao
CHAN Chak Kwan
CUI Haitao

## NOMINATION COMMITTEE

CHEN Dezhao *(Chairman)*
CHAN Chak Kwan
CUI Haitao

## LEGAL ADVISORS AS TO HONG KONG LAWS

Gallant

## AUTHORISED REPRESENTATIVES

CHEN Dezhao
CHEN Jun

## STOCK CODE

02379

## COMPANY'S WEBSITE

www.irasia.com/listco/hk/zhongtian

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUDITORS

Crowe (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 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

## REGISTERED OFFICE

Cricket Square Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

5th Floor, Block C
Zhongtian Building
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 2019 (the "Reporting Period"), together with the comparative figures for the corresponding period in 2018 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

| | | **Unaudited Six months ended 30 June** | |
|---|---|---|---|
| | Notes | **2019 RMB'000** | 2018 RMB'000 |
| Revenue | 2 | **7,292** | 23,873 |
| Other revenue, income and other net gains/losses | 3 | **19,221** | 24,311 |
| Gain on land expropriation | 8 | **48,777** | – |
| Change in fair value of investment properties | | **915** | – |
| Administrative expenses | | **(4,051)** | (3,142) |
| Finance costs | | **(26,054)** | (31,115) |
| Profit before taxation | 4 | **46,100** | 13,927 |
| Income tax credits | 5 | **27,560** | – |
| Profit for the period | | **73,660** | 13,927 |
| Attributable to: | | | |
| Equity holders of the Company | | **73,660** | 13,927 |
| **Other comprehensive loss for the period** | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange difference on translation of financial statements of foreign operations | | **(41)** | (218) |
| **Total comprehensive income for the period** | | | |
| *Attributable to owners of the Company* | | **73,619** | 13,709 |
| **Earnings per share (expressed in RMB cents)** | | | |
| Basic and diluted | 7 | **18.0** | 3.4 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

| | Notes | Unaudited 30 June 2019 RMB'000 | Audited 31 December 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | 8 | **567,040** | 787,040 |
| Property, plant and equipment | | **933** | 1,138 |
| Loan and other receivables | 9 | **618,000** | 613,500 |
| Prepayment for construction costs | 10 | **9,600** | – |
| | | **1,195,573** | 1,401,678 |
| **CURRENT ASSETS** | | | |
| Land under development into properties for sale | 8 | **133,000** | – |
| Prepayment for construction costs | 10 | **96,053** | – |
| Trade and other receivables | 11 | **55,089** | 61,384 |
| Cash and cash equivalents | | **41,984** | 15,465 |
| | | **326,126** | 76,849 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | **70,480** | 62,513 |
| Amounts due to directors | | **603** | 603 |
| Amount due to the ultimate controlling party of the Company | | **21,110** | 21,064 |
| Tax payable | | **6,569** | 6,569 |
| Bank and other borrowings | 13 | **266,300** | 83,300 |
| | | **365,062** | 174,049 |
| **NET CURRENT LIABILITIES** | | **(38,936)** | (97,200) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,156,637** | 1,304,478 |

| | Notes | Unaudited 30 June 2019 RMB'000 | Audited 31 December 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Bank and other borrowings | 13 | **526,950** | 720,850 |
| Deferred tax liabilities | | **214,551** | 242,111 |
| | | **741,501** | 962,961 |
| **NET ASSETS** | | **415,136** | 341,517 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 14 | **3,667** | 3,667 |
| Reserves | | **411,469** | 337,850 |
| **TOTAL EQUITY** | | **415,136** | 341,517 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

| | (Unaudited) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | |
| | Share capital RMB'000 | Share premium RMB'000 | Exchange reserve RMB'000 | Property revaluation reserve RMB'000 | Retained profits RMB'000 | Sub-total RMB'000 | Total RMB'000 |
| **At 1 January 2019** | **3,667** | **328,194** | **(3,792)** | **2,633** | **10,815** | **337,850** | **341,517** |
| Net profit for the period | **–** | **–** | **–** | **–** | **73,660** | **73,660** | **73,660** |
| Other comprehensive loss for the period: | | | | | | | |
| Exchange difference on translation of financial statements of foreign operations | **–** | **–** | **(41)** | **–** | **–** | **(41)** | **(41)** |
| Total comprehensive income (loss) for the period | **–** | **–** | **(41)** | **–** | **73,660** | **73,619** | **73,619** |
| **At 30 June 2019** | **3,667** | **328,194** | **(3,833)** | **2,633** | **84,475** | **411,469** | **415,136** |
| At 1 January 2018 | 3,667 | 328,194 | (3,660) | 1,652 | 56,377 | 382,563 | 386,230 |
| Net profit for the period | – | – | – | – | 13,927 | 13,927 | 13,927 |
| Other comprehensive loss for the period: | | | | | | | |
| Exchange difference on translation of financial statements of foreign operations | – | – | (218) | – | – | (218) | (218) |
| Total comprehensive income (loss) for the period | – | – | (218) | – | 13,927 | 13,709 | 13,709 |
| At 30 June 2018 | 3,667 | 328,194 | (3,878) | 1,652 | 70,304 | 396,272 | 399,939 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2019

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| **Net cash generated from/(used in) from operating activities** | **38,962** | (22,298) |
| **Investing activities** | | |
| **Other interest received** | **19,200** | 24,133 |
| **Payment for expenditure on investment properties and property, plant and equipment** | **(85)** | – |
| **Received from land expropriation** | **136,777** | – |
| **(Payment for)/Refunds of construction costs of land under development** | **(105,653)** | 43,000 |
| **Net cash generated from investing activities** | **50,239** | 67,133 |
| **Financing activities** | | |
| **Proceeds from bank and other borrowings** | **–** | 10,000 |
| **Repayment of other borrowing** | **(10,900)** | (41,900) |
| **Interest paid** | **(51,782)** | (31,115) |
| **Net cash used in financing activities** | **(62,682)** | (63,015) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **26,519** | (18,180) |
| **Cash and cash equivalents at beginning of the period** | **15,465** | 25,341 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY CASH AND BANK BALANCES** | **41,984** | 7,161 |

## 1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements of 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 2018.

### Going concern basis

At 30 June 2019, the Group's current liabilities exceeded current assets by approximately RMB38,936,000. This condition indicates the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, may not be able to realise its assets and discharge its liabilities in the normal course of business in the next twelve months after the date of approval for the interim condensed consolidated financial statements.

## 1. BASIS OF PREPARATION *(Continued)*

### Going concern basis *(Continued)*

Notwithstanding the aforesaid conditions, the interim condensed consolidated financial statements have been prepared by the directors of the Company on the assumption that the Group will be able to operate as a going concern in the foreseeable future, after taking into consideration of:

(a) continuing financial support from the ultimate controlling party of the Company, Mr. Chen Jun who has provided an irrevocable undertaking to the Group by providing adequate funds to the Group to enable it to meet its debts as and when they fall due and to carry on its business as a going concern in the foreseeable future; and

(b) additional new credit facilities being currently in serious discussions between the Group and certain financial institutions.

The directors of the Company have prepared a cash flow forecast of the Group for a period covered not less than twelve months from the date of approval of the interim condensed consolidated financial statements. Based on the forecast which has taken into account of the Group's above measures taken to date, the directors of the Company are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of approval of the interim condensed consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and the future capital expenditure requirements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements for the period ended 30 June 2019 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would be made to reclassify all non-current assets and liabilities as current assets and liabilities, write down the value of assets to their recoverable amounts and to provide for further liabilities which may arise. The interim condensed consolidated financial statements have not incorporated any of these adjustments.

## 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 2018, 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:

| | |
|---|---|
| HKFRS 16 | Leases |
| HK(IFRIC) – Int 23 | Uncertainty over Income Tax |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to HKFRSs 2015–2017 | Cycle Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

The adoption of these amendments to HKFRSs has had no significant financial effect on the financial position or performance of the Group except HKFRS 16. The nature and impact of HKFRS 16 are described below:

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease, HK(SIC) – Int 15 Operating Leases – Incentives and HK(SIC) – Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

## 1. BASIS OF PREPARATION *(Continued)*

### New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC) – Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

### As a lessee – Leases previously classified as operating leases

***Nature of the effect of adoption of HKFRS 16***

The Group has lease contracts for various items of office premises and storage. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## 1. BASIS OF PREPARATION *(Continued)*

### As a lessee – Leases previously classified as operating leases *(Continued)*

***Impacts on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank loans. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties, the Group has continued to include them as investment properties at 1 January 2019 and applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Elected not to recognise a lease liability and a right-of-use asset for leases for which the lease term ends within 12 months of the date of initial application.

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

There is no impacts arising from the adoption of HKFRS 16 as at 1 January 2019, as the leases with a lease term that ends within 12 months from the date of initial application, which is applied the short-term lease exemptions.

## 1. BASIS OF PREPARATION *(Continued)*

### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

#### *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

#### *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

## 1. BASIS OF PREPARATION *(Continued)*

### Summary of new accounting policies *(Continued)*

***Lease liabilities*** *(Continued)*

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

### Amounts recognised in the interim consolidated statement of financial position and profit or loss

During the period, the Group entered into certain short-term (i.e. within 12 months) lease arrangement for storage premises and a motor vehicle. The Group has elected not to recognised right-to-use assets and lease liabilities on these short-term lease contracts.

The Group recognised variable lease payments of RMB95,000 for the six months ended 30 June 2019.

## 2. REVENUE AND SEGMENT INFORMATION

### (a) Revenue

The Group's revenue represents the rental income from investment properties and revenue from provision of financial services.

The amount of each significant category of revenue recognised in revenue during the period is as follows:

| | Unaudited<br>Six months ended 30 June<br>**2019**<br>**RMB'000** | <br><br>2018<br>RMB'000 |
|---|---|---|
| Gross rental income from investment properties | **3,335** | 20,027 |
| Revenue from provision of financial services | **3,957** | 3,846 |
| | **7,292** | 23,873 |
| Timing of revenue recognition under HKFRS 15: | | |
| Over time | **3,957** | 3,846 |
| Unsatisfied long-term financial service contract: | | |
| Aggregate amount of the transaction price (less applicable value-added tax) allocated to long-term financial service contract that is partially unsatisfied at the end of the reporting period | | |
| – within 1 year | **7,965** | 7,913 |
| – from 2 to 5 years | **31,858** | 31,858 |
| – beyond 5 years | **23,894** | 31,858 |
| | **63,717** | 71,629 |

## 2. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segments information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Property segment: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties and the land under development are located in the PRC.

– Financial service segment: provision of services in connection with financing and procurement arrangements in the PRC.

## 2. REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segments information *(Continued)*

Segments information for the period are as follows:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Revenue | | |
| Property | **3,335** | 20,027 |
| Financial services | **3,957** | 3,846 |
| | **7,292** | 23,873 |
| Segment results | | |
| Property | **42,519** | 10,123 |
| Financial services | **3,957** | 3,846 |
| | **46,476** | 13,969 |
| Unallocated other operating income | **5** | 77 |
| Unallocated corporate expenses | **(381)** | (119) |
| Profit before taxation | **46,100** | 13,927 |
| Income tax credits | **27,560** | – |
| Profit for the period | **73,660** | 13,927 |

### (c) Geographical segments

No geographical segments information of the Group is shown as the Group's major operations and markets including location of non-current assets are all located in the PRC.

## 3. OTHER REVENUE, INCOME AND OTHER NET GAINS/LOSSES

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Interest income from loan receivables (Note) | **19,200** | 24,133 |
| Interest income on bank deposits | **17** | 177 |
| Sundry income | **4** | 1 |
| | **19,221** | 24,311 |

Note: This represented the interest accrued on a back-to-back long-term loan of RMB600,000,000 receivable from an independent third party gas operator. The interest expense of RMB19,200,000 accrued on the back-to-back loan of RMB600,000,000 payable to a trust scheme was included in the finance costs disclosed in note 4 below.

## 4. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Finance cost | **26,054** | 31,115 |
| Depreciation of property, plant and equipment | **205** | 120 |
| Amortisation of leasehold land held under operating lease | **–** | 36 |

## 5. INCOME TAX

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Current Tax | **–** | – |
| Deferred Tax | **27,560** | – |
| | **27,560** | – |

No provision for Hong Kong profits tax has been 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 rate of the Group is 25% (six months ended 30 June 2018: 25%).

In accordance with the relevant regulations and tax rules, the gain arising from expropriation of land is exempt from enterprise income tax, VAT and land appreciation tax and therefore, the deferred tax liabilities previously recognised amounted to approximately RMB27,560,000 was reversed and credited to profit or loss for the period ended 30 June 2019.

## 6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the Reporting Period (six months ended 30 June 2018: Nil).

## 7. EARNING PER SHARE

The calculation of basic earning per share of the Company is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2019 of approximately RMB73,660,000 (six months ended 30 June 2018: profit of approximately RMB13,927,000) and weighted average number of Shares issued as at 30 June 2019 of 410,209,122 (30 June 2018: 410,209,122).

There were no dilutive potential Shares as at 30 June 2019 and 30 June 2018, and diluted earning per share is the same as basic earning per share.

## 8. INVESTMENT PROPERTIES

| | Completed properties RMB'000 | Land held as investment property under development RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2019 (Audited) | 567,040 | 220,000 | 787,040 |
| Addition | – | 85 | 85 |
| Disposal | – | (88,000) | (88,000) |
| Gain from fair value change | – | 915 | 915 |
| Transfer to land under development into properties for sale | – | (133,000) | (133,000) |
| At 30 June 2019 (Unaudited) | 567,040 | – | 567,040 |

The land held as investment property under development is situated in Qingdao, the PRC and held under a medium term lease of 40 years. Previously, the Group intended to develop the above land held as investment property under development into an office complex for rental purposes and/or capital appreciation.

## 8. INVESTMENT PROPERTIES *(Continued)*

On 20 May 2019, the People's Government of Qingdao City (High-tech Zone) officially approved the entering into of the Agreement on Recovering the Land Use Right of State-owned Construction Land (Qing Gao Tu Chu Shou Zi [2019] No. 8) between Qingdao Municipal State-owned Land Resources and Housing Management Bureau (High-tech Zone) and the Group for the purpose of recovering the land use right of 36,311 square meters state-owned construction land in the land parcel of 91,165 square meters located at No. 877 Huihai Road held by the Group into reserve. The land expropriating compensation in aggregate amounted to RMB136,777,000 was paid by the Committee of Hetao Sub-district Office on Land Requisition and Reconstruction for supporting projects at the area adjacent to the Hongdao Station (河套街道辦事處紅島站周邊配套工程徵地拆遷建設工作指揮部) (the "Committee"), resulting in a gain on land expropriation of RMB48,777,000 for the six months ended 30 June 2019. The remaining land use right of the state-owned construction land of 54,854 square meters still belongs to the Group.

The land held as investment property under development was revalued on 20 May 2019 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair value of land held as investment property under development is revalued by reference to recent transaction prices of similar land, based on the direct comparison approach.

To capitalise on the benefits of the change in the revised government town planning for the district where the Group's remaining land is situated, the Group has changed its overall plan for developing its remaining land into residential and commercial properties intended for sale which, within its normal operating cycle, has been reclassified and included under "Current Assets" at 30 June 2019.

Except for land previously held as investment property under development, no fair value adjustment was considered necessary by the directors of the Company for the six months ended 30 June 2019. The investment properties and the land under development into properties for sale are pledged to banks and other financial institutions for bank and other borrowings of the Group, as further detailed in note 13.

## 9. LOAN AND OTHER RECEIVABLES

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| Loan receivable | **600,000** | 600,000 |
| Interests receivable | **48,590** | 31,209 |
| Income receivable from provision of financial services | **18,000** | 13,500 |
| Loan and other receivables carried at amortised costs | **666,590** | 644,709 |
| Less: Amount classified under current assets (note 11) | **(48,590)** | (31,209) |
| Non-current assets | **618,000** | 613,500 |

## 9. LOAN AND OTHER RECEIVABLES *(Continued)*

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement (the "Construction and Procurement Agreement") with Qingdao Ruiding Energy Co., Ltd ("Ruiding"), an independent natural gas operator which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao (the "Natural Gas Project"), the PRC, and Qingdao Ruikangjie New Energy Material Co., Ltd ("Ruikangjie"), an independent supplier of materials and equipment for construction of the Natural Gas Project of Ruiding, for a term of 10 years. In accordance with the commercial substance of the arrangements under the Construction and Procurement Agreement, as clarified by a supplemental agreement dated 26 March 2018 ("Supplemental Agreement") made between Qingdao Zhongtian and Ruiding, during the year ended 31 December 2017, Qingdao Zhongtian provided the financial services to Ruiding and obtained a loan of RMB600 million (the "Project Loan") from an independent third party trust scheme (refer to note 13), which was then transferred, at the instructions of Ruiding, to Ruikangjie as advanced payments made by Ruiding for the purchase costs of materials and equipment acquired and/or to be acquired from Ruikangjie, in connection with the construction of the Natural Gas Project of Ruiding. The Project Loan was obtained by Qingdao Zhongtian from the trust scheme on a back-to-back basis for Ruiding. Out of the proceeds of the Project Loan of RMB600,000,000 obtained from the trust scheme, Ruiding (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000, representing 20% of the Project Loan, to the trust scheme. Ruiding has provided an unlimited corporate guarantee in favour of the trust scheme for the repayments of the principals of the entire Project Loan and the interest accruing at the applicable effective rate of 6.4% (i.e. 8% x (1–20%)) per annum on the Project Loan, which shall be the obligations of Ruiding for repaying to the trust scheme. Ruiding shall repay Qingdao Zhongtian for the entire Project Loan, together with the interests accruing thereon, at each instalment of not less than RMB200,000,000 on 31 May 2020, 31 May 2021 and 31 May 2022, respectively. The principals of Project Loan receivable from Ruiding, together with the interest accrued thereon and service charge as detailed below, are secured by the collateral of the business and its relevant assets of the Natural Gas Project of Ruiding, based on a pledge agreement entered into between Ruiding and Qingdao Zhongtian on 18 June 2018.

## 9. LOAN AND OTHER RECEIVABLES *(Continued)*

In consideration of the services rendered by Qingdao Zhongtian, Ruiding shall pay Qingdao Zhongtian a fee, as financial service income, which is recognised on a daily basis at RMB24,658 (inclusive of value-added tax) per day and straight-line basis over the contract term period of 10 years. During the period ended 30 June 2019, financial service income, net of value-added tax of RMB543,000 (2018: RMB615,000), amounting to RMB3,957,000 (2018: RMB3,846,000) was recognised and credited to the profit or loss for the year. The Group assessed recoverability of the long-term loan and interest receivables, together with the service income receivable, totaled approximately RMB666,590,000 (2018: RMB644,709,000) by reference to the recoverable amount, being the fair value less cost of disposal, of the business and its relevant assets of Ruiding identified as a cash generating unit, based on a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets. Based on the assessment, the directors of the Company considered that the recoverable amount of the long-term long loan and interest receivable and the service income receivable exceeded the aggregate of their carrying amounts and accordingly, no provision for impairment on these assets was made as at 30 June 2019 (2018: Nil).

## 10. PREPAYMENT FOR CONSTRUCTION COST

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current asset | **9,600** | – |
| Current asset | **96,053** | – |
| | **105,653** | – |

Note: During the period ended 30 June 2019, the Group entered into construction agreements with independent third-party contractors to carry out construction works in relation to the land held under development into residential properties intended for sale and completed properties under investment properties at total consideration of RMB192,106,000 and RMB16,000,000, respectively, for which, upfront payments of RMB96,053,000 and RMB9,600,000 were paid by the Group, respectively in accordance with the terms of the relevant construction agreements. The construction works will be started no later than October 2019.

## 11. TRADE AND OTHER RECEIVABLES

As of the end of the Reporting Period, trade receivables represent rental receivables. The aging analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts is as follows:

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| 0–30 days | **2,629** | 3,162 |
| 31–60 days | **49** | 3,162 |
| 61–90 days | **49** | 3,162 |
| 91–180 days | **148** | 9,485 |
| 181–365 days | **–** | 10,606 |
| Trade debtors and bills receivable, net of allowance | **2,875** | 29,577 |
| Loan interest receivables | **48,590** | 31,209 |
| Other receivables | **3,253** | 257 |
| Trade and other receivables classified as loan and receivables | **54,718** | 61,043 |
| Prepayments and deposits | **371** | 341 |
| | **55,089** | 61,384 |

The Group has a policy of allowing a credit period ranging from 10 to 30 days. All of the trade and other receivables are expected to be received or recognised as expense within one year.

During the period ended 30 June 2019, Beijing Hengyuan Lizhen Network Technology Co., Ltd.* (北京亨元利貞網絡科技有限公司) (formerly known as Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司)) ("Hengyuan Lizhen") settled all its outstanding rental receivables of approximately RMB29,577,000 brought forward from 31 December 2018.

Subsequent to 30 June 2019 and in July 2019, Qingdao Ruiding Energy Co., Ltd. ("Ruiding") settled RMB31,209,000 for those accrued loan interest to the Group.

## 12. TRADE AND OTHER PAYABLES

Trade and other payables of RMB70,480,000 (31 December 2018: RMB62,513,000) include trade payables of RMB2,500,000 (31 December 2018: RMB2,567,000).

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

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| 0–30 days | **–** | – |
| 31–60 days | **–** | – |
| 61–90 days | **–** | – |
| 91–180 days | **–** | – |
| 181–365 days | **–** | – |
| Over–365 days | **2,500** | 2,567 |
| | **2,500** | 2,567 |

## 13. BANK AND OTHER BORROWINGS

As at 30 June 2019, the Group had bank and other borrowings as follows:

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| Secured bank borrowings | **193,250** | 194,150 |
| Secured borrowings from an other financial institution | **–** | 10,000 |
| Secured borrowing from a trust scheme | **600,000** | 600,000 |
| | **793,250** | 804,150 |

## 13. BANK AND OTHER BORROWINGS *(Continued)*

As at 30 June 2019, interest-bearing bank and other borrowings due for repayment were as follows:

| | Unaudited 30 June 2019 RMB'000 | Audited 31 December 2018 RMB'000 |
|---|---|---|
| Carrying amounts repayable: | | |
| Within 1 year | **266,300** | 83,300 |
| After 1 year but within 2 years | **134,300** | 207,300 |
| After 2 years but within 5 years | **390,400** | 390,400 |
| After 5 years | **2,250** | 123,150 |
| | **793,250** | 804,150 |
| Less: Current portion | **(266,300)** | (83,300) |
| Non-current portion | **526,950** | 720,850 |

As at 30 June 2019, bank and other borrowings were interest bearing at 4.35% to 8% (2018: 4.75% to 9.0%) per annum.

A bank borrowing of RMB11,250,000 (2018: RMB12,150,000) was secured by certain investment properties (note 8), leasehold land and buildings held under operating lease. Bank borrowings of RMB182,000,000 (2018: RMB182,000,000) were secured by certain investment properties (note 8) or/and guaranteed by Mr. Chen Jun, the ultimate controlling party of the Company.

## 13. BANK AND OTHER BORROWINGS *(Continued)*

Borrowings amounting to RMB600,000,000 (2018: RMB600,000,000) and RMB Nil (2018: RMB10,000,000) payable to the trust scheme and another financial institution, respectively, have been secured by land under development into properties for sale (31 December 2018: investment properties) of the Group (note 8) and personal guarantees provided by Mr. Chen Jun, a controlling shareholder and director of the Company, and his spouse. As part of the arrangements for the other borrowing of RMB600,000,000 obtained from the trust scheme to which Ruiding (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000 which is subordinated to the remaining scheme fund of RMB480,000,000 contributed by the other independent third party beneficiary of the trust scheme, Ruiding has also provided an unlimited guarantee in favour of the trust scheme for the repayments of the borrowing of RMB600,000,000 (2018: RMB600,000,000) and the interests thereon at the effective applicable rate of 6.4% per annum, payable by Qingdao Zhongtian. The principals of the Project Loan from the trust scheme will be repaid by Qingdao Zhongtian by the following instalments:

– RMB120,000,000 on 28 June 2020;

– RMB120,000,000 on 28 June 2021; and

– RMB360,000,000 on 28 June 2022

which shall be repaid by Ruiding to Qingdao Zhongtian.

In the opinions of the directors of the Company, neither the Company, the Group, any of directors of the Company nor the top management of the Group has any beneficial interests in and relationship with all the fund contributors and beneficiaries, including Ruiding, of the trust scheme.

## 14. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **30 June 2019 (Unaudited) '000** | 31 December 2018 (Audited) '000 | **30 June 2019 (Unaudited) RMB'000** | 31 December 2018 (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: | | | | |
| As at 1 January 2019/2018 and 30 June 2019/ 31 December 2018 | **410,209** | 410,209 | **3,667** | 3,667 |

## 15. COMMITMENTS

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

| | **Unaudited 30 June 2019 RMB'000** | Audited 31 December 2018 RMB'000 |
|---|---|---|
| Authorised but not contracted for (note (a)) | – | 182,754 |
| Contracted but not provided for (note (b)) | **105,064** | 2,611 |

Notes:

(a) As at 31 December 2018, the Group had authorised but not contracted for capital commitments for construction costs relating to the land held as investment property under development.

(b) As at 30 June 2019, contracted but not provided for capital commitments included amounts of RMB96,053,000 and RMB6,400,000 relating to the land under development into properties for sale and properties held as investment properties respectively.

## 16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board on 27 August 2019.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

During the Reporting Period, the Group was principally engaged in two business segments, namely financial service and property.

### Financial Service

On 17 July 2017, Qingdao Zhongtian Enterprise Development Co., Ltd. ("Qingdao Zhongtian"), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement with Qingdao Ruiding Energy Co., Ltd. (青島瑞鼎能源有限公司) ("Ruiding") and Qingdao Ruikangjie New Energy Material Co., Ltd. (青島瑞康捷新能源材料有限公司) ("Ruikangjie"), two independent third parties. Pursuant to the aforesaid agreement, as clarified by a supplemental agreement between Qingdao Zhongtian and Ruiding on 26 March 2018, Qingdao Zhongtian was appointed by Ruiding to provide financing services, for a period of 10 years, and to obtain a loan facility of RMB600,000,000 from a designated trust scheme for the purpose of financing the purchase consideration of materials and equipment to be supplied by Ruikangjie, for construction of Ruiding's Natural Gas Project located in Qingdao. Under the aforesaid agreements, Ruiding shall bear all the obligations for the repayment of the loan principal, together with the interests accruing thereon, through Qingdao Zhongtian, to the trust scheme on 31 May 2020, 31 May 2021 and 31 May 2022, with each payment being not less than RMB200,000,000. This business segment is expected to contribute a stable long-term revenue to the Group.

## Property

After the renovation of its investment properties in 2010 and further acquisition of new office premises in 2016, the Group leased its commercial properties to generate rental revenue, and there was a comparatively stable and growing revenue generated from the property segment. As at 30 June 2019, the details of the investment properties and land under development into properties for sale of the Group are as follows:

### *(a) Investment Properties*

As the lease agreement entered into between the Group and the former tenant Jinku Business Investment Co., Ltd.* (錦庫商業投資有限公司) expired on 31 December 2018, it had a significant impact on the Group's leasing business in the first half of the year.

On 18 May 2019, the Group entered into a new lease agreement with an independent third-party for an initial period of two years with a leased area of approximately 9,400 square meters, representing approximately 75% of all the commercial and office units in the composite building located at Laoshan District, Qingdao City. 244 underground car parking spaces in the composite building have been rented out on an hourly basis to tenants and visitors to the composite building.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Tenancy agreements entered into between the third party tenants and the Group are with the initial periods ranging from 3 to 10 years.

Taking into account the improvements in the local investment environment and the favourable conditions in the local commercial property market, the Board will continue to pay attention to the development of this segment and to identify and seek suitable opportunities for further investments.

### *(b) Land under Development*

The land of the Company which is under development is situated within the Chengyang District in Qingdao City, the PRC. On 20 May 2019, the People's Government of Qingdao City (High-tech Zone) officially approved the entering into of the Agreement on Recovering the Land Use Right of Stateowned Construction Land (Qing Gao Tu Chu Shou Zi [2019] No. 8) between Qingdao Municipal State-owned Land Resources and Housing Management Bureau (High-tech Zone) and the Group for the purpose of recovering the land use right of 36,311 square meters state-owned construction land in the land parcel of 91,165 square meters located at No. 877 Huihai Road held by the Group into reserve. The land expropriating compensation in aggregate amounted to RMB136,777,000 was paid by the Committee of Hetao Sub-district Office on Land Requisition and Reconstruction for supporting projects at the area adjacent to the Hongdao Station (河套街道辦事處紅島站周邊配套工程徵地拆遷建設工作指揮部) (the "Committee"). The remaining land use right of the state-owned construction land of 54,854 square meters still belongs to the Group.

To capitalise on the benefits of the change in the revised government town planning for the district where the Group's remaining land is situated, the Group has changed its overall plan for developing its remaining land into residential and commercial properties intended for sale.

## FINANCIAL REVIEW

### Turnover

The Group's total turnover for the Reporting Period was approximately RMB7,292,000, representing an decrease of approximately 69% from approximately RMB23,873,000 for the corresponding period in 2018. This was mainly attributable to the decrease in rental income from the property segment due to expiry of rental agreements.

### Other Income and Other Net Gains

The Group's other income and other net gains for the Reporting Period were approximately RMB19,211,000 (corresponding period in 2018: RMB24,311,000), representing a decrease of approximately 21% as compared to the corresponding period in 2018. This was mainly attributable to the decrease in interest income from loan receivable generated from the new financial service segment.

### General and Administrative Expenses

The Group's general and administrative expenses for the Reporting Period were approximately RMB4,051,000 (corresponding period ended 30 June 2018: approximately RMB3,142,000), representing an increase of approximately 29% over the corresponding period ended 30 June 2018. This was mainly attributable to the increase in other tax expenses in the six months ended 30 June 2019.

### Net Profit

During the Reporting Period, the Group recorded a net profit of approximately RMB73,660,000 representing an increase of approximately 428% from the net profit of approximately RMB13,927,000 for the corresponding period ended 30 June 2018. The increase was mainly attributable to the gain in land expropriation in the Reporting Period as compared to corresponding period in 2018.

## BUSINESS REVIEW

### Analysis by Business Segment

During the Reporting Period, the Group's principal source of income was derived from the financial service segment, which accounted for approximately 80.3% of the total turnover of the Group and the property segment contributed the remaining 19.7%.

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

## FUTURE OUTLOOK

Commercial properties of the Group have commenced to generate stable and growing rental revenue and have become a major source of income for the Group.

As China has invested a substantial amount of funding in the innovation and research and development of clean energy, China has become the largest producer of clean energy in the world and has been promoting the development of clean energy industry of the world. The "Clean Energy Action" of the Chinese government has already created various positive effects on related industries and sectors. Under such circumstance, the Group has accelerated the deployment in the clean energy industry under the new financial services segment and is prepared to occupy market share leveraging on its own advantages and in response to its development demand.

## DEBTS

As at 30 June 2019, the Group had secured bank and other borrowings of approximately RMB793,250,000 (31 December 2018: approximately RMB804,150,000).

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 and mortgages.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the 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 2019, the Group had cash and bank balances of approximately RMB41,984,000 (31 December 2018: approximately RMB15,465,000) all of which was held in Renminbi. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was approximately 191.1% (31 December 2018: approximately 235.5%).

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 believed that the Group would 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.

## MATERIAL ACQUISITION AND DISPOSAL

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 2019, the investment properties with fair value of approximately RMB567,040,000 (31 December 2018: RMB787,040,000) and land under development into properties for sale of approximately RMB133,000,000 were pledged for bank and other borrowings of the Group.

Save as disclosed above, the Group had no other material charge on assets and contingent liabilities as at 30 June 2019.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group had 19 employees (31 December 2018: 25 employees). 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 RMB1,272,000 (six months ended 30 June 2018: approximately RMB1,216,000).

## EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event of the Group after the Reporting Period and up to the date of this report.

# DISCLOSURE OF INTERESTS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, interests or short positions in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

### Long position in Shares

| Name of Directors | Capacity | Number of Shares interested/held | Approximate percentage of Shareholding |
|---|---|---|---|
| Chen Jun | Beneficial owner | 5,525,000 | 1.35% |
| | Interest of a controlled corporation (Note 1) | 108,042,781 | 26.34% |
| | Interest of a controlled corporation (Note 2) | 124,000,000 | 30.23% |

Notes:

(1) Fine Mean Investments Limited is wholly-owned by Mr. Chen Jun, and held 108,042,781 Shares as beneficial owner as at 30 June 2019. Mr. Chen Jun is the sole director of Fine Mean Investments Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested in all the Shares held by Fine Mean Investments Limited for the purposes of the SFO.

(2) Vast Yield Holdings Limited is wholly-owned by Mr. Chen Jun, and held 124,000,000 Shares as beneficial owner as at 30 June 2019. Mr. Chen Jun is the sole director of Vast Yield Holdings Limited. As such, Mr. Chen Jun is deemed, or taken to be, interested in all the Shares held by Vast Yield Holdings Limited for the purposes of the SFO.

Save as disclosed above, as at 30 June 2019, none of the Directors nor chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2019, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept pursuant to section 336 of the SFO:

### Long position in Shares and underlying Shares of the Company

| Name of substantial Shareholder | Capacity | Number of Shares interested/held | Approximate shareholding percentage |
|---|---|---|---|
| Fine Mean Investments Limited | Beneficial owner | 108,042,781 | 26.34% |
| Vast Yield Holdings Limited | Beneficial owner | 124,000,000 | 30.23% |
| Ms. Su Haiqing (Note 1) | Interest of spouse | 237,567,781 | 57.91% |
| Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) (Note 2) | Security interest | 232,042,781 | 56.57% |
| Zhongtai International Asset Management Limited (Note 3) | Security interest | 232,042,781 | 56.57% |

Notes:

(1) 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 Shares in which Mr. Chen Jun has, or is deemed to have, an interest for the purpose of the SFO.

(2) According to the disclosure of interest notice filed by Qilu International Funds SPC (acting for and on behalf of Zhongtai Dingfeng Classified Fund SP) on 23 January 2018, it had a security interest of 232,042,781 Shares.

(3) According to the disclosure of interest notice filed by Zhongtai International Asset Management Limited on 23 January 2018, it had a security interest of 232,042,781 Shares.

Save as disclosed above, as at 30 June 2019, 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.

## 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 did not recommend payment of any interim dividend for the Reporting Period (six months ended 30 June 2018: 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.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee"), comprising three independent non-executive Directors, namely Mr. Cui Haitao (chairman of the Audit Committee), Ms. Chan Chak Kwan and Mr. Liu Jin Lu, had reviewed and discussed with the management of the Company the accounting principles and practices adopted by the Group, the interim report and the internal controls and financial reporting matters including a review of the interim results of the Company for the Reporting Period.

## REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 25 April 2005, comprising three independent non-executive Directors, namely Ms. Chan Chak Kwan, Mr. Liu Jin Lu and Mr. Cui Haitao, and one executive Director, namely Mr. Chen Dezhao. Mr. Liu Jin Lu 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. Cui Haitao and Ms. Chan Chak Kwan, 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.

## 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.

By Order of the Board
**Chen Dezhao**
*Chairman*

Qingdao City, Shandong Province, the PRC
30 August 2019

* *for identification purposes only*