

Qingdao Holdings International Limited 青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 499)



2020 Interim Report



*For identification purposes only

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020



	Notes	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Revenue			
– Goods		7,432	11,858
– Rental		15,378	15,819
– Interest		67	600
Total revenue	4	22,877	28,277
Finished goods purchased		(4,855)	(8,935)
Change in inventories of finished goods		334	1,932
Increase/(decrease) in fair value of investment properties		4,673	(2,400)
Other income	4	706	578
Other gains and losses	4	1,493	7,128
Impairment reversal on financial assets, net		330	–
Employee benefits expenses		(4,335)	(3,490)
Other operating expenses		(9,072)	(9,083)
Finance costs	5	(10,231)	(10,392)
Profit before tax	6	1,920	3,615
Income tax expense	7	(1,875)	(276)
Profit for the period		45	3,339
Attributable to:			
Owners of the parent		1,626	3,829
Non-controlling interests		(1,581)	(490)
		45	3,339
Earnings per share			
– Basic (HK cents)	9	0.33	0.76
– Diluted (HK cents)	9	0.33	0.76

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Other comprehensive income/(loss)		
<i>Item that will not be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of financial statements from functional currency to presentation currency	(3,830)	(18,949)
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	661	6,404
Other comprehensive loss for the period	(3,169)	(12,545)
Total comprehensive loss for the period	(3,124)	(9,206)
Attributable to:		
Owners of the parent	(990)	(6,339)
Non-controlling interests	(2,134)	(2,867)
	(3,124)	(9,206)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020



	Notes	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	22,806	23,499
Investment properties	11	539,201	538,656
Right-of-use assets		3,877	1,278
Goodwill		5,725	5,789
Intangible assets		20,509	22,089
Financial asset at fair value through profit or loss		12,500	13,102
Deferred tax assets		3,195	3,396
Total non-current assets		607,813	607,809
Current assets			
Inventories		15,133	14,799
Trade and other receivables	12	26,387	29,503
Loan and interest receivables		–	9,043
Other financial assets		–	11,111
Financial asset at fair value through profit or loss		2,208	–
Cash and cash equivalents		90,202	72,765
Total current assets		133,930	137,221
Current liabilities			
Trade and other payables	13	6,832	9,030
Contract liabilities		3,065	4,614
Rental deposits from tenants		503	503
Interest-bearing bank borrowings		49,370	49,573
Lease liabilities		1,358	1,006
Income tax payable		28	61
Total current liabilities		61,156	64,787
Net current assets		72,774	72,434
Total assets less current liabilities		680,587	680,243



	Note	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Non-current liabilities			
Rental deposits from tenants		294	294
Lease liabilities		1,911	254
Loan from ultimate holding company		378,022	382,222
Deferred tax liabilities		7,092	5,269
Total non-current liabilities		387,319	388,039
Net assets		293,268	292,204
Equity			
Equity attributable to owners of the parent			
Share capital	14	49,928	49,928
Reserves		207,540	208,530
		257,468	258,458
Non-controlling interests		35,800	33,746
		293,268	292,204

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



	Attributable to owners of the parent				Non-controlling interests	Total
	Share capital HK\$'000	Surplus account* HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Sub-Total HK\$'000	HK\$'000
At 1 April 2019 (audited)	49,928	328,931	(11,319)	(114,282)	253,258	289,074
Profit/(loss) for the period	-	-	-	3,829	3,829	3,339
Exchange differences arising on translation of foreign operations	-	-	6,404	-	6,404	6,404
Exchange difference on translation of financial statements from functional currency to presentation currency	-	-	(16,572)	-	(16,572)	(18,949)
Total comprehensive income/(loss) for the period	-	-	(10,168)	3,829	(6,339)	(9,206)
At 30 September 2019 (unaudited)	49,928	328,931	(21,487)	(110,453)	246,919	279,868

	Attributable to owners of the parent				Non-controlling interests	Total
	Share capital HK\$'000	Surplus account* HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Sub-Total HK\$'000	HK\$'000
At 1 January 2020 (audited)	49,928	328,931	(19,048)	(101,353)	258,458	292,204
Profit/(loss) for the period	-	-	-	1,626	1,626	45
Exchange differences arising on translation of foreign operations	-	-	661	-	661	661
Exchange difference on translation of financial statements from functional currency to presentation currency	-	-	(3,277)	-	(3,277)	(3,830)
Total comprehensive income/(loss) for the period	-	-	(2,616)	1,626	(990)	(3,124)
Capital contributions from non-controlling shareholders of a subsidiary	-	-	-	-	-	4,188
At 30 June 2020 (unaudited)	49,928	328,931**	(21,664)**	(99,727)**	257,468	293,268

* The surplus account represented the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve of a subsidiary which was acquired by the Company pursuant to a previous group reorganisation in 1997.

** These reserve accounts comprise the consolidated other reserves of HK\$207,540,000 (31 December 2019: HK\$208,530,000) in the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020



	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Net cash flow from operating activities	15,049	18,427
INVESTING ACTIVITIES		
Interest income received	250	211
Investment income received	434	366
Proceeds from disposal of items of investment properties	–	4,003
Redemption of other financial assets	10,989	–
Purchases of financial assets at fair value through profit or loss, net	(2,190)	(4,545)
Purchase of property, plant and equipment	(167)	(99)
Net cash flow from/(used in) investing activities	9,316	(64)
FINANCING ACTIVITIES		
New borrowings	–	39,776
Capital contributions from non-controlling shareholders of a subsidiary	4,188	–
Repayment of loan from an intermediate holding company	–	(40,052)
Repayment of loan interest to ultimate holding company	(9,128)	(12,920)
Principal portion of lease payment	(866)	(496)
Interest portion of lease payment	(68)	(24)
Interest paid	(1,003)	(358)
Net cash flows used in financing activities	(6,877)	(14,074)
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,488	4,289
Cash and cash equivalents at the beginning of the period	72,765	71,375
Effect of foreign exchange rate changes, net	(51)	(4,218)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	90,202	71,446

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the nine months ended 31 December 2019.

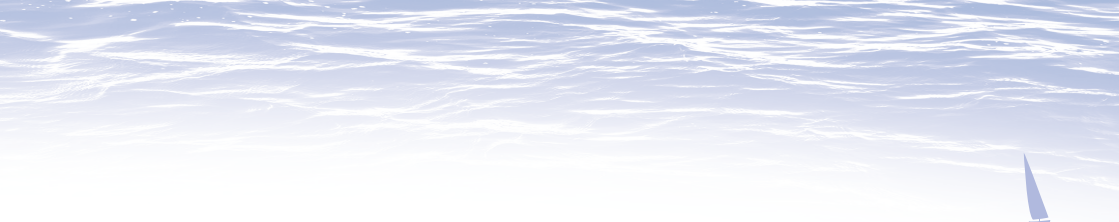
Pursuant to a resolution of the Board dated 6 December 2019, the Company’s financial year end date has been changed from 31 March to 31 December commencing from the financial year of 2019 in order to align the financial year end date with its controlling shareholder and principal operating subsidiaries. Accordingly, the interim condensed consolidated financial information for the current financial period cover a period of six months from 1 January 2020 to 30 June 2020. The comparative figures presented for the interim condensed consolidated statement of profit or loss, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of change in equity, interim condensed consolidated statement of cash flows and related notes cover the unaudited figures of the financial period from 1 April 2019 to 30 September 2019, which may not be comparable with the amounts shown for the current financial period.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the nine months ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Except for the amendment to HKFRS 16, the new and revised HKFRSs are not relevant to the preparation of the Group’s interim condensed consolidated financial information.



Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. There is no impact on the Group's financial statements upon adoption of the amendment.

3. SEGMENT INFORMATION

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

- (a) Leasing of properties: this segment mainly leases residential, industrial and commercial premises to generate rental income;
- (b) Production and sale of education equipment: this segment is engaged in the research and development, production and sale of education equipment together with relevant learning and tutorial systems; and
- (c) Loan financing: this segment provides loan financing services to individuals or corporate customers. The Group possesses a money lender licence and its money lending business is mainly carried out in Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that fair value changes of investment properties, certain other income, other gains and losses, certain employee benefit expenses, finance costs, as well as certain other operating expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, financial assets at fair value through profit or loss, other financial assets, tax recoverable, certain property, plant and equipment and certain other receivables of the corporate office.

Segment liabilities exclude certain other payables and accrued charges of the corporate offices as these liabilities are managed on a group basis.

Segment revenue and results

For the six months ended 30 June 2020 (unaudited)

	Segment revenue HK\$'000 (unaudited)	Segment results HK\$'000 (unaudited)
Leasing of properties	15,378	13,597
Production and sale of education equipment	7,432	(324)
Loan financing	67	245
Segment total	<u>22,877</u>	<u>13,518</u>
Increase in fair value of investment properties		4,673
Unallocated income		706
Unallocated expenses		<u>(16,977)</u>
Profit before tax		<u>1,920</u>

For the six months ended 30 September 2019 (unaudited)

	Segment revenue HK\$'000 (unaudited)	Segment results HK\$'000 (unaudited)
Leasing of properties	15,819	13,736
Production and sale of education equipment	11,858	(983)
Loan financing	600	582
Segment total	28,277	13,335
Decrease in fair value of investment properties		(2,400)
Unallocated income		578
Unallocated expenses		(7,898)
Profit before tax		3,615

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Segment assets		Segment liabilities	
	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Leasing of properties	560,478	551,216	387,359	389,624
Production and sale of education equipment	49,316	52,811	45,483	49,166
Loan financing	–	9,043	–	–
Segment total	609,794	613,070	432,842	438,790
Unallocated:				
Cash and cash equivalents	90,202	72,765	–	–
Others	41,747	59,195	15,633	14,036
Total	741,743	745,030	448,475	452,826

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Mainland China	20,790	25,671
Hong Kong	2,087	2,606
	22,877	28,277

(b) Non-current assets

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Mainland China	409,680	405,345
Hong Kong	182,438	185,966
	592,118	591,311

4. REVENUE, OTHER INCOME, OTHER GAINS AND LOSSES

Revenue

An analysis of revenue is as follows:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
<i>Revenue from contracts with customers</i>		
Sale of education equipment	7,432	11,858
<i>Revenue from other sources</i>		
Gross rental income from investment property		
operating leases with fixed payments	15,378	15,819
Loan financing	67	600
	22,877	28,277

The performance obligation of sale of education equipment is satisfied upon delivery of goods and payment in advance is generally required.

Other income

An analysis of other income is as follows:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Bank interest income	250	211
Investment income from financial assets at fair value through profit or loss	398	366
Investment income from other financial assets	36	–
Others	22	1
	706	578

Other gains and losses

An analysis of other gains and losses is as follows:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Net foreign exchange gain	2,020	7,012
Gain/(Loss) from change in fair value of financial assets at fair value through profit or loss, net	(527)	116
	1,493	7,128

5. FINANCE COSTS

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Interest expenses on:		
Loan from the ultimate holding company	9,128	10,033
Bank loans	1,093	330
Lease liabilities	10	29
	10,231	10,392

6. PROFIT BEFORE TAX

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

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Depreciation of property, plant and equipment	842	834
Depreciation of right-of-use assets	1,012	399
Amortisation of intangible assets	1,337	1,383
Impairment reversal on financial assets, net	(330)	–
Investment income from financial assets at fair value through profit or loss	398	366
Investment income from other financial assets	36	–
Net foreign exchange gain	2,020	7,012
Gain/(Loss) from change in fair value of financial assets at fair value through profit or loss, net	(527)	116
Cost of inventories sold	4,521	7,003



7. INCOME TAX EXPENSE

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for both periods.

Mainland China

Under the Law of Mainland China on Entity Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiaries was 25% for both periods.

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Current tax – Hong Kong		
Charge for the period	–	–
Overprovision in prior years	(157)	–
Current tax – Mainland China		
Charge for the period	–	–
Underprovision in prior year	–	57
Deferred	2,032	219
Total tax charge for the period	1,875	276

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the six months ended 30 June 2020 and 30 September 2019, nor has any dividend been proposed since the end of the reporting period (30 September 2019: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to equity holders of the parent is based on the following data:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Earnings Profit attributable to ordinary equity holders of the parent	1,626	3,829
Number of shares Weighted average number of ordinary shares in issue during the period	499,276,680	499,276,680
Earnings per share Basic and diluted earnings per share attributable to ordinary equity holders of the parent	HK0.33 cents	HK0.76 cents



10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group purchased items of property, plant and equipment at a total cost of HK\$167,000 (six months ended 30 September 2019: HK\$99,000) and there is no disposed of items of property, plant and equipment (six months ended 30 September 2019: none).

11. INVESTMENT PROPERTIES

The investment properties of the Group are located in Hong Kong and the mainland China. The valuations for investment properties have been arrived on a basis of valuations carried out at the end of the reporting period by Asia-Pacific Consulting and Appraise Limited (30 September 2019: Asia-Pacific Consulting and Appraise Limited) by adopting the income capitalisation method.

For the six months ended 30 June 2020, an unrealised gain on investment properties revaluation of HK\$4,673,000 (six months ended 30 September 2019: an unrealised loss of HK\$2,400,000) has been recognised in profit or loss.

12. TRADE AND OTHER RECEIVABLES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Trade receivables	10,433	1,923
Less: Allowance for credit losses	(95)	(228)
	10,338	1,695
Deposits, prepayments and other receivables	3,949	3,932
Cash in transit	–	11,380
Value-added tax recoverable	12,100	12,496
	26,387	29,503

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Within 1 month	2,894	1,204
1 to 2 months	2,226	–
2 to 3 months	2,287	93
Over 3 months	2,931	398
	10,338	1,695

13. TRADE AND OTHER PAYABLES

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Trade payables	465	1,119
Accrued charges	4,061	5,772
Other payables	393	790
Other taxes payable	1,797	1,191
Receipt in advance	116	158
	6,832	9,030

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Within 1 month	457	392
1 to 2 months	–	726
2 to 3 months	7	–
Over 3 months	1	1
	465	1,119

14. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2019, 31 December 2019 and 30 June 2020	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 April 2019, 31 December 2019 and 30 June 2020	<u>499,277</u>	<u>49,928</u>

15. PLEDGE OF ASSETS

As at 30 June 2020, the Group pledged certain of its investment properties with market value of HK\$160,300,000 (31 December 2019: HK\$163,100,000) to a bank in Hong Kong to secure banking facility granted to the Group to obtain a mortgage financing from a bank in Hong Kong of approximately HK\$49,370,000 (31 December 2019: HK\$49,573,000). As at 30 June 2020, the Group had unutilised banking facilities of HK\$50,000,000 (31 December 2019: HK\$50,000,000).

16. RELATED PARTY DISCLOSURES

(a) Compensation of key management personnel

The remuneration of the Directors during the period was as follows:

	Six months ended 30 June 2020 HK\$'000 (unaudited)	Six months ended 30 September 2019 HK\$'000 (unaudited)
Short-term benefits	240	340

- (b) At 7 May 2020, Qingdao Qifeng Technology Services Co., Ltd.* (青島啟峰科技服務有限公司) (“Qifeng”, an indirect wholly-owned subsidiary of the Company), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* (青島城鄉建設小額貸款有限公司) (“QURC Micro-credit Loan Company”) and Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) (“Huizhou Jiuyu”, an associate of the Group) entered into an entrusted loan arrangement, pursuant to which QURC Micro-credit Loan Company, acting as the lending agent, will release a loan in the principal amount of RMB195,100,000, which will be funded by Qifeng, to Huizhou Jiuyu, in accordance with the terms of the entrusted loan contract. The interest rate is 15% per annum.

Qingdao City Construction Investment (Group) Limited* (青島城市建設投資(集團)有限公司) (“QCCIG”), the ultimate controlling shareholder of the Company, entered into the loan agreement with Qifeng on the same day, pursuant to which, QCCIG has agreed to provide, upon Qifeng’s request, unsecured loan of RMB182,000,000 to Qifeng. Such loan will be available for drawdown by Qifeng in accordance with Qifeng’s actual needs within two years from the first drawdown under the loan agreement at an interest rate of 3.85% per annum. The Group intends to use its internal resources and the loan provided by QCCIG to fund the entrusted loan to be made to Huizhou Jiuyu.

The transaction was duly approved by the independent shareholders of the Company by way of poll at the special general meeting held on 30 June 2020. Huizhou Jiuyu and Qifeng had not drawn the loans as of 30 June 2020.




17. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Financial assets				
Financial asset at fair value through profit or loss	<u>14,708</u>	<u>13,102</u>	<u>14,708</u>	<u>13,102</u>

	Carrying amounts		Fair values	
	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)
Financial liabilities				
Interest-bearing bank borrowings	<u>49,370</u>	<u>49,573</u>	<u>49,370</u>	<u>49,573</u>
Loan from and amount due to the ultimate holding company	<u>378,022</u>	<u>382,222</u>	<u>378,022</u>	<u>382,222</u>
	<u>427,392</u>	<u>431,795</u>	<u>427,392</u>	<u>431,795</u>



The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company as at 30 June 2020 were assessed to be insignificant.

The Group invests in wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group also invests in an unlisted investment issued by a financial institution in Hong Kong, the fair value of which was determined with reference to the quoted price provided by the issuing financial institution.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair values:

As at 30 June 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Financial asset at fair value through profit or loss	–	14,708	–	14,708

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Financial asset at fair value through profit or loss	–	13,102	–	13,102

Liabilities measured at fair values:

The Group did not have any financial liabilities measured at fair value as at 30 June 2020 and 31 December 2019. During the six months ended 30 June 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (six months ended 30 September 2019: Nil).

Liabilities for which fair values are disclosed:

As at 30 June 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	–	49,370	–	49,370
Loan from the ultimate holding company	–	378,022	–	378,022
	–	427,392	–	427,392

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	Total HK\$'000
Interest-bearing bank borrowings	–	49,573	–	49,573
Loan from the ultimate holding company	–	382,222	–	382,222
	–	431,795	–	431,795

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 24 August 2020.



INTERIM DIVIDEND

The board (the “Board”) of directors (the “Directors”) of Qingdao Holdings International Limited (the “Company”) has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (30 September 2019: Nil).

CHANGE OF THE FINANCIAL YEAR END DATE

On 6 December 2019, the Company announced that the financial year end date of the Company has been changed from 31 March to 31 December of each year. For details, please refer to the announcement of the Company dated 6 December 2019. Due to the change of the financial year end date, the results for the six months ended 30 September 2019 (the “Previous Period”) are used as comparative figures.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company and its subsidiaries (collectively referred to as the “Group”) is principally engaged in the business of (i) leasing of investment properties; (ii) production and sale of digital Chinese calligraphy education equipment and related learning and tutorial systems; and (iii) provision of loan financing services.

Leasing of Investment Properties

During the six months ended 30 June 2020, the Group managed to achieve a stable return and recorded a rental income of approximately HK\$15.4 million (Previous Period: HK\$15.8 million) from the leasing of investment properties located in the People’s Republic of China (the “PRC”) and Hong Kong.

As the duration of the coronavirus outbreak (“COVID-19 outbreak”) remains uncertain, the management will continue to closely monitor the development of the leasing market in the PRC and Hong Kong, and adopt suitable measures to achieve the expected performance of its investment property portfolio.

Production and Sale of Digital Chinese Calligraphy Education Equipment

During the six months ended 30 June 2020, revenue generated from the production and sale of digital Chinese calligraphy education equipment amounted to approximately HK\$7.4 million (Previous Period: HK\$11.9 million), representing a decrease of approximately HK\$4.5 million.

Schools are the main customers for this business segment. Due to the implementation of precautionary measures by the PRC government as a result of the COVID-19 outbreak, especially in the first quarter of 2020, classes at schools in our major markets in the PRC were suspended. As a result, installation works for our digital Chinese calligraphy education equipment in classrooms according to the purchase orders placed by schools and colleges were delayed and the production and sales promotion activities initially scheduled for this business segment were disrupted, which resulted in a deterioration in the performance of this segment.



Since Chinese calligraphy training has been made compulsory for students in primary and secondary schools across the PRC, the Group remains optimistic about the prospects of its Chinese calligraphy education related products in the long term. The management will continue to closely monitor the development of the situation.

Loan Financing

During the six months ended 30 June 2020, the Group's loan financing business recorded a revenue of approximately HK\$0.07 million (Previous Period: HK\$0.6 million). All loan receivables were settled in early 2020. The Group did not grant any new loans during the six months ended 30 June 2020 as business activities had been slowing down during the review period because of the COVID-19 outbreak.

The Group will continue to employ prudent credit control procedures and strategies to maintain a balance between business growth and risks. The Group is still keen on growing its loan financing business and will explore business opportunities with its best effort. It is expected that loan financing business will continue to be part of the main income streams of the Group when the general economic conditions gradually return to normal as the COVID-19 outbreak stabilises.

FINANCIAL REVIEW


Revenue and Results

For the six months ended 30 June 2020, the Group recorded a revenue of approximately HK\$22.9 million (Previous Period: HK\$28.3 million), representing a decrease of approximately HK\$5.4 million as compared with the Previous Period.

Cost of inventories for the six months ended 30 June 2020 was approximately HK\$4.5 million (Previous Period: HK\$7.0 million), representing a decrease of approximately HK\$2.5 million as compared with the Previous Period.

Employee benefit expenses for the six months ended 30 June 2020 were approximately HK\$4.3 million (Previous Period: HK\$3.5 million), representing an increase of approximately HK\$0.8 million as compared with the Previous Period. The increase was mainly attributable to the additional employees employed by NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) ("the Joint Venture Company"), which was established in December 2019.

Exchange gains arising from the translation of monetary items denominated in foreign currencies other than the functional currencies of the Group entities were approximately HK\$2.0 million for the six months ended 30 June 2020 (Previous Period: HK\$7.0 million). Such unrealised gain was mainly due to the depreciation of Renminbi ("RMB") against United States dollars and Hong Kong dollars and the change of the Group's functional currency from Hong Kong dollars to RMB.



Other operating expenses for the six months ended 30 June 2020 were approximately HK\$9.1 million (Previous Period: HK\$9.1 million).

Finance costs for the six months ended 30 June 2020 were approximately HK\$10.2 million (Previous Period: HK\$10.4 million). Finance costs included interest payable for the unsecured loans provided by an intermediate holding company and the ultimate holding company of the Company and interest payable for the secured loan provided by a bank.

For the six months ended 30 June 2020, the profit for the period attributable to owners of the Company was approximately HK\$1.6 million (Previous Period: HK\$3.8 million) and the earnings per share was 0.33 HK cents (Previous Period: 0.76 HK cents). The decrease was mainly attributable to (i) the COVID-19 outbreak, which adversely interrupted the normal production and sales activities of the digital Chinese calligraphy education equipment segment; and (ii) the decrease in exchange gains due to the depreciation of RMB against United States dollars and Hong Kong dollars.

Liquidity

As at 30 June 2020, the total assets of the Company amounted to approximately HK\$741.7 million (31 December 2019: HK\$745.0 million), whereas the total liabilities of the Group amounted to approximately HK\$448.5 million (31 December 2019: HK\$452.8 million).

Accordingly, the net assets of the Company as at 30 June 2020 was HK\$293.2 million (31 December 2019: HK\$292.2 million).

The gearing ratio of the Company, being total liabilities to total assets, was 60.5% as at 30 June 2020 (31 December 2019: 60.8%). The Group believes that it has adequate cash resources to meet its commitments and current working capital requirements.

Capital Structure

The number of issued ordinary shares of the Company as at 30 June 2020 and 31 December 2019 was 499,276,680 shares.

Pledge of Assets

As at 30 June 2020, the Group pledged certain of its investment properties with a market value of HK\$160.3 million (31 December 2019: HK\$163.1 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 30 June 2020, the Group had unutilised banking facilities of HK\$50.0 million (31 December 2019: HK\$50.0 million).



Foreign Exchange Exposure

The Group's financial statements are presented in Hong Kong dollars. The Group carried out its business transactions mainly in Hong Kong dollars, RMB and United States dollars. During the six months ended 30 June 2020, RMB depreciated against Hong Kong dollars and United States dollars. The Group does not have any hedging arrangement on foreign exchange but will continue to closely monitor its foreign exchange exposure in RMB.

Contingent Liabilities and Capital Commitments

As at 30 June 2020 and 31 December 2019, the Group did not have any material contingent liabilities or capital commitments.

Employees and Remuneration Policy

As at 30 June 2020, the Group had 93 employees. The Directors and the Group's employees are remunerated based on their performance and experience, the current industry practices and the prevailing market conditions and in accordance with the existing labour laws. In addition to basic salaries, the Directors and the Group's employees are rewarded with performance-related bonuses and other staff welfare benefits.

PROSPECTS

The socio-economic impact of the COVID-19 outbreak is being experienced not just in the PRC and Hong Kong, but also across the world. The economic and trading environment of the PRC and Hong Kong may continue to be, to different extents, challenged by the US-China trade tension, COVID-19 outbreak and social unrest in Hong Kong. The Group believes that these extraordinary events, when they ultimately stabilise, will not have a significant impact on the Group's operations in the long term.

The Group thanks its employees for their hard work and perseverance, and the members of the Board for their guidance. Most of all, the Group thanks its consumers, customers, and business partners for their continued support, patronage, and trust.

Looking ahead, the Group will seek to overcome all these challenges and endeavour its best to achieve stable and promising results with concerted efforts from all its staff and full support from the ultimate controlling shareholder, Qingdao City Construction Investment (Group) Limited* (青島城市建設投資(集團)有限責任公司) ("QCCIG"). The Group will continue to promote the long term sustainable development of its business, with an aim to bring a stable return to its shareholders and maximise shareholders' wealth.



MATERIAL TRANSACTION IN RELATION TO THE PROVISION OF ENTRUSTED LOAN

On 15 November 2019, Qingdao Holdings (Hong Kong) Limited (“Qingdao (HK)”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the “Joint Venture Agreement”) with China Nuclear Industry Zhongyuan Construction Co., Limited* (中國核工業中原建設有限公司) (“China Nuclear Industry”) and China Huadong Construction and Engineering Group Limited* (中國華東建設工程集團有限公司) (“China Huadong”) in relation to the formation of the Joint Venture Company. The Joint Venture Company is mainly engaged in the operation of various businesses in the PRC, and is principally engaged in urban reconstruction and development, construction and management of parks, construction and management of municipal facilities and equity investment and capital deployment.

On 10 December 2019, Qingdao (HK), China Nuclear Industry and China Huadong established the Joint Venture Company pursuant to the Joint Venture Agreement. The Joint Venture Company is 51%, 30% and 19% owned by Qingdao (HK), China Nuclear Industry and China Huadong, respectively.

On 25 February 2020, the Joint Venture Company and Huizhou Meile Land Company Limited* (惠州市美樂置地實業有限公司) (“Meile Land”), an independent third party of the Company, established Huizhou Yanlong Land Company Limited* (惠州市炎隆置業有限公司) (“Huizhou Yanlong”). Huizhou Yanlong is 49% and 51% owned by the Joint Venture Company and Meile Land, respectively. Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) (“Huizhou Jiuyu”) is wholly-owned by Huizhou Yanlong. Huizhou Jiuyu is expected to acquire the land use rights of the parcel of land which is located at No. 1 Court, Zhongkai Gaoxin District, Huizhou City, Guangdong Province, the PRC (中國廣東省惠州市仲愷高新區1號小區) (the “Land”).

To provide Huizhou Jiuyu with part of the funding for the acquisition, development and operating expenses of the Land, Qingdao Qifeng Technology Services Co., Ltd* (青島啟峰科技服務有限公司) (“Qifeng”), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* (青島城鄉建設小額貸款有限公司) (“QURC Micro-credit Loan Company”) and Huizhou Jiuyu entered into an entrusted loan arrangement on 7 May 2020 (the “Entrusted Loan Arrangement”). Pursuant to the Entrusted Loan Arrangement, QURC Micro-credit Loan Company, acting as the lending agent, agreed to release a loan in the principal amount of RMB195,100,000 (the “Entrusted Loan”), which will be funded by Qifeng, to Huizhou Jiuyu, subject to the terms and conditions of the entrusted loan contract dated 7 May 2020 entered into between Qifeng, QURC Micro-credit Loan Company and Huizhou Jiuyu (the “Entrusted Loan Contract”) and the entrusted loan entrustment contract. QURC Micro-credit Loan Company is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities and is a connected person of the Company.



Upon the obtaining of the land use rights of the Land by Huizhou Jiuyu, Huizhou Jiuyu shall pledge the land use rights of the Land and its construction-in-progress property project on the Land in favour of QURC Micro-credit Loan Company as security of the Entrusted Loan. Further, Huizhou Jiuyu shall procure (i) Meile Land to pledge its 51% equity interest in Huizhou Yanlong; (ii) Huizhou Yanlong to pledge its 100% equity interest in Huizhou Jiuyu; and (iii) Meile Land to provide the joint and several liability guarantee on the Entrusted Loan, in favour of QURC Micro-credit Loan Company as security of the Entrusted Loan. As at the date of this report, the land use rights of the Land and its construction-in-progress property project on the Land have not been pledged to QURC Micro-credit Loan Company.

On 7 May 2020, QCCIG entered into a loan agreement (the “Loan Agreement”) with Qifeng, pursuant to which, QCCIG agreed to provide, upon Qifeng’s request, unsecured loan of RMB182,000,000 to Qifeng at an interest rate of 3.85% per annum (“Financial Assistance”). The Group intends to use its internal resources and the Financial Assistance to fund the Entrusted Loan.

One of the Group’s principal business activities is the provision of loan financing. Due to the difference between the interest rates under the Loan Agreement and the Entrusted Loan Arrangement, the Group will generate positive interest income under the Entrusted Loan Arrangement. The Directors consider that the Entrusted Loan would increase the income of the Group and the interest income would generate positive cash flow for the Group.

In addition, as the Joint Venture Company (a subsidiary of the Company) indirectly owns 49% of the equity interest in Huizhou Jiuyu, the Company is expected to benefit from Huizhou Jiuyu on a pro-rata basis based on the performance of Huizhou Jiuyu. It is expected that the Entrusted Loan will be applied by Huizhou Jiuyu for the acquisition, development and operating expenses of the Land and the construction-in-progress property project on the Land. Upon completion of the development of the Land, Huizhou Jiuyu is expected to generate revenue by selling the residential properties on the Land. Qingdao (HK), a wholly-owned subsidiary of the Company, as an indirect shareholder of Huizhou Jiuyu, will benefit from the property sales of the Land.

The provision of Entrusted Loan and the transactions contemplated thereunder were approved by the independent shareholders of the Company at the special general meeting of the Company held on 30 June 2020.

The drawdown of the Entrusted Loan is conditional upon, among other things, the provision of other documents and information request by the QURC Micro-credit Loan Company as stated in the Entrusted Loan Contract. As at the date of this report, the Entrusted Loan has not been drawn down by Huizhou Jiuyu.



For further details of the Entrusted Loan Arrangement, please refer to the announcements of the Company dated 7 May 2020 and 30 June 2020 and the circular of the Company dated 11 June 2020.

Other than the Entrusted Loan Arrangement disclosed above, there are no important events affecting the business of the Group which have occurred since 31 December 2019 up to the date of this report.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2020, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHARE OPTIONS

At the annual general meeting of the Company held on 22 August 2013, the shareholders of the Company conditionally adopted the share option scheme (the "Share Option Scheme"), which became effective on 27 August 2013.

The primary purpose of the Share Option Scheme is to provide incentives to Directors and eligible participants. The Share Option Scheme will remain in force for a period of 10 years commencing from 27 August 2013. Under the Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares in the Company:

- (i) any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.



The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 August 2013 unless approved by the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive Directors in excess of 0.1% of the shares of the Company in issue or with a value in excess of HK\$5,000,000 in any 12-month period up to and including the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days from the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of grant of the share option to a date to be determined and notified by the Directors or, in the absence of such determination, the earlier of the date on which the options lapse or the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No options has been granted under the Share Option Scheme since its adoption. As at the date of this report, the maximum number of shares which may be issued upon exercise of options yet to be granted under the Share Option Scheme is 49,927,668 shares, representing 10% of the total number of issued shares of the Company (i.e. 499,276,680 ordinary shares).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" on page 34 of this report, at no time during the six months ended 30 June 2020 was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their spouses or children under the age of 18 had any rights to subscribe for shares of the Company or had exercised any such rights during the six months ended 30 June 2020.



SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors and chief executive of the Company, as at 30 June 2020, the following persons (other than a Director or chief executive of the Company or their associates) had the following interests and short positions (if any) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Interest in the shares of the Company

Long positions

Name	Capacity	Number of shares held (Note)	Approximate percentage of the Company's total number of shares in issue
Qingdao City Construction Investment (Group) Limited* (青島城市建設投資（集團） 有限責任公司) ("QCCIG")	Interest of a controlled corporation	344,621,633	69.02%
China Qingdao Development (Holdings) Group Company Limited ("CQDHG")	Interest of a controlled corporation	344,621,633	69.02%
China Qingdao International (Holdings) Company Limited ("CQIH")	Beneficial owner	344,621,633	69.02%

Note: The 344,621,633 shares of the Company were held by CQIH, which is a wholly-owned subsidiary of CQDHG. CQDHG is wholly-owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the shares of the Company held by CQIH.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the total number of shares in issue of the Company as at 30 June 2020.



CORPORATE GOVERNANCE CODE

The Board is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes efforts in identifying and developing the best practices. The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2020, except for the deviations set out below.

Code provision A.1.3 of the CG Code stipulates that at least 14 days’ notice should be given for a regular board meeting to give all directors an opportunity to include matters in the agenda. During the six months ended 30 June 2020, two of the Board meetings were convened with less than 14 days’ notice in order to facilitate timely decision making in respect of certain internal affairs and commercial transaction of the Group. The Board will use reasonable endeavor to meet the requirement of code provision A.1.3 of the CG Code in the future.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Mr. Gao Yuzhen, the Chairman of the Company, was unable to attend the annual general meeting of the Company held on 30 June 2020 in person due to the travel restrictions imposed by the Hong Kong government amid the COVID-19 outbreak.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the Directors. The Company has made specific and reasonable enquiries with all Directors and is satisfied that they had complied with the Model Code throughout the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the six months ended 30 June 2020.

EVENT AFTER THE REPORTING PERIOD

There is no event after the Reporting Period which would have a material impact on the Company’s financial position.



AUDIT COMMITTEE AND REVIEW OF THE INTERIM REPORT

The audit committee of the Company (the “Audit Committee”) comprises four independent non-executive Directors and reports to the Board. The primary duties of the Audit Committee are to review and advise on the accounting principles and practices adopted by the Group, and oversee the auditing and financial reporting processes and the risk management and internal control systems of the Group. The Audit Committee also meets with the Group’s senior management regularly to review the effectiveness of the risk management and internal control systems as well as the interim and annual reports of the Group. The financial information in this report is unaudited and has been reviewed by the Audit Committee.

By order of the Board
Qingdao Holdings International Limited
Gao Yuzhen
Executive Director and Chairman

Hong Kong, 24 August 2020

As at the date of this report, the Executive Directors are Mr. Gao Yuzhen (Chairman), Mr. Yuan Zhi (Deputy Chairman and Chief Executive Officer) and Mr. Hu Liang; the Non-executive Director is Mr. Li Shaoran; and the Independent Non-executive Directors are Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue.

* *For identification purposes only*