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QINGDAO HOLDINGS INTERNATIONAL LIMITED

青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00499)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019 AND SUPPLEMENTAL INFORMATION TO DISCLOSEABLE TRANSACTION

The Board of Directors (the “Board”) of Qingdao Holdings International Limited (the “Company”) presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2019 together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

		Six months ended 30 September	
	<i>Notes</i>	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	3	28,277	28,093
Finished goods purchased		(8,935)	(8,999)
Change in inventories of finished goods		1,932	2,064
Increase in fair value of investment properties		(2,400)	1,196
Other income	4	578	1,128
Other gains and losses	4	7,128	3,414
Employee benefits expenses		(3,490)	(2,601)
Other operating expenses		(9,083)	(8,787)
Finance costs	5	(10,392)	(10,625)
Profit before taxation	6	3,615	4,883
Income tax expense	7	(276)	(1,566)
Profit for the period		3,339	3,317

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Note	Six months ended 30 September	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Other comprehensive (expense) income			
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements from functional currency to presentation currency		<u>(18,949)</u>	<u>(9,622)</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations of subsidiaries		<u>6,404</u>	<u>24</u>
Total comprehensive expense for the period		<u><u>(9,206)</u></u>	<u><u>(6,281)</u></u>
Profit (Loss) for the period attributable to:			
Owners of the Company		3,829	1,899
Non-controlling interests		<u>(490)</u>	<u>1,418</u>
		<u><u>3,339</u></u>	<u><u>3,317</u></u>
Total comprehensive expense for the period attributable to:			
Owners of the Company		(6,339)	(4,092)
Non-controlling interests		<u>(2,867)</u>	<u>(2,189)</u>
		<u><u>(9,206)</u></u>	<u><u>(6,281)</u></u>
Earnings per share			
– Basic (HK cent)	9	<u><u>0.76</u></u>	<u><u>0.38</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2019

		At 30 September 2019 <i>HK\$'000</i> (unaudited)	At 31 March 2019 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		23,906	24,688
Investment properties	10	522,855	546,479
Right-of-use assets		1,148	–
Goodwill		5,725	6,058
Intangible assets		22,515	25,239
Financial asset at fair value through profit or loss		13,207	13,122
Deferred tax asset		3,149	3,530
		592,505	619,116
Total non-current assets			
Current assets			
Inventories		17,579	15,647
Trade and other receivables	11	17,297	20,790
Loan and interest receivables	12	11,871	11,821
Financial asset at fair value through profit or loss		4,427	–
Bank balances and cash		71,446	71,375
		122,620	119,633
Total current assets			
Assets of a disposal group classified as held for sale	13	–	4,003
		122,620	123,636
Total current assets			
Current liabilities			
Trade and other payables	14	6,667	5,017
Contract liabilities		5,671	162
Rental deposits from tenants		208	219
Amount due to ultimate holding company		–	4,169
Amount due to an intermediate holding company		–	276
Interest-bearing bank and other borrowings		770	–
Income tax payable		121	154
		13,437	9,997
Total current liabilities			
Net current assets		109,183	113,639
Total assets less current liabilities		701,688	732,755

		At	At
		30 September	31 March
		2019	2019
	<i>Note</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
Non-current liabilities			
Rental deposits from tenants		298	819
Deferred tax liabilities		3,596	3,712
Loan from ultimate holding company		378,022	400,000
Loan from an intermediate holding company		–	39,150
Interest-bearing bank and other borrowings		39,904	–
		<hr/>	<hr/>
Total non-current liabilities		421,820	443,681
		<hr/>	<hr/>
Net assets		279,868	289,074
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Share capital	15	49,928	49,928
Reserves		196,991	203,330
		<hr/>	<hr/>
Equity attributable to owners of the Company		246,919	253,258
Non-controlling interests		32,949	35,816
		<hr/>	<hr/>
		279,868	289,074
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2019 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 year ended 31 March 2019.

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 year ended 31 March 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 April 2019.

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

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group’s interim condensed consolidated financial information. 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 April 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 April 2019, and the comparative information was not restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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).

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. After the commencement date, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

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. 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'.

Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 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 and measured at fair value, the Group has continued to include them as investment properties at 1 April 2019. They continue to be measured at fair value applying HKAS 40.

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

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 April 2019 are as follows:

	Increase (decrease) <i>HK\$'000</i> (unaudited)
Assets	
Increase in right-of-use assets	1,637
Decrease in trade and other receivables	<u>(168)</u>
Increase in total assets	<u><u>1,469</u></u>
Liabilities	
Increase in interest-bearing bank and other borrowings	<u>1,469</u>
Increase in total liabilities	<u><u>1,469</u></u>

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 is as follows:

	<i>HK\$'000</i> (unaudited)
Operating lease commitments as at 31 March 2019	2,433
Weighted average incremental borrowing rate as at 1 April 2019	<u>4.75%</u>
Discounted operating lease commitments as at 1 April 2019	2,278
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 March 2019	<u>809</u>
Lease liabilities as at 1 April 2019	<u><u>1,469</u></u>

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

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follow:

	Right-of-use assets	
	Leasehold land and building	Lease liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April 2019	1,637	1,469
Depreciation charge	(399)	–
Interest expense	–	29
Payments	–	(520)
Exchange realignment	(90)	(80)
	<hr/>	<hr/>
As at 30 September 2019	1,148	898
	<hr/> <hr/>	<hr/> <hr/>

3. SEGMENT INFORMATION

The segments information reported externally was analysed on the basis of the services provided by the Group's operating divisions which is consistent with the internal information that is regularly reviewed by the executive directors, the chief operating decision maker (the "CODM") for the purposes of resource allocation and performance assessment.

Details of the Group's three operating and reporting segments are as follow:

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

For the six months ended 30 September 2019 (unaudited)

Segment

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

For the six months ended 30 September 2018 (unaudited)

Segment

	Segment revenue <i>HK\$'000</i>	Segment results <i>HK\$'000</i>
Leasing of properties	15,967	13,553
Production and sale of education equipment	11,526	298
Loan financing	600	586
	<hr/>	<hr/>
Segment total	28,093	14,437
	<hr/> <hr/>	
Increase in fair value of investment properties		1,196
Unallocated income		1,128
Unallocated expenses		(11,878)
		<hr/>
Profit before taxation		4,883
		<hr/> <hr/>

Other segment information

Segment profit represents the profit earned by each segment without allocation of other income, certain other gains and losses, certain employee benefits expenses and certain other operating expenses. Besides, segment results are analysed before taxation whereas tax payable and deferred tax liabilities are allocated to operating segments. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	Segment assets		Segment liabilities	
	30.9.2019 <i>HK\$'000</i> (unaudited)	31.3.2019 <i>HK\$'000</i> (audited)	30.9.2019 <i>HK\$'000</i> (unaudited)	31.3.2019 <i>HK\$'000</i> (audited)
Leasing of properties	534,456	560,023	383,053	410,492
Production and sale of education equipment	55,672	55,483	49,440	40,962
Loan financing	11,871	12,080	–	100
Segment total	601,999	627,586	432,493	451,554
Unallocated:				
Bank balances and cash	71,446	71,375	–	–
Others	41,680	43,791	2,764	2,124
Total	715,125	742,752	435,257	453,678

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, certain other receivables of the corporate office, financial assets at fair value through profit or loss (“financial assets at FVTPL”), bank balances and cash and assets classified as held for sale.
- all liabilities including tax payables and deferred tax liabilities are allocated to operating segments other than certain other payables of the corporate offices.
- investment properties were allocated to the leasing of properties segment while the change in fair value of investment properties was not reported to the CODM as part of the segment results.

The above allocation was reported to the CODM for the purposes of resource allocation and assessment of segment performance.

Geographical information

The following is an analysis of the Group's revenue by the geographical location of customers and properties for rental income for the period:

	For the six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Mainland China	25,671	26,485
Hong Kong	2,606	1,608
	<u>28,277</u>	<u>28,093</u>

4. OTHER INCOME, OTHER GAINS AND LOSSES

	For the six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Other income		
Bank interest income	211	415
Investment income from financial asset at FVTPL	366	366
Others	1	347
	<u>578</u>	<u>1,128</u>
Other gains and losses, net		
Net foreign exchange gain	7,012	3,844
Fair value changes in financial asset at FVTPL	116	(430)
	<u>7,128</u>	<u>3,414</u>

5. FINANCE COSTS

	For the six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Interest on borrowings	10,363	10,625
Interest on leases	29	–
	<u>10,392</u>	<u>10,625</u>

6. PROFIT BEFORE TAXATION

	For the six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	1,233	739
Amortisation of intangible assets	1,338	1,698
Impairment loss recognised in respect of – trade receivables	–	8
	<u>–</u>	<u>8</u>

7. INCOME TAX EXPENSE

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.

Tax on profits assessable in Mainland China has been calculated at the applicable PRC corporate income tax (“CIT”) rates. The tax rate of the PRC subsidiaries is 25% for both periods ended.

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
Hong Kong Profits Tax		
– Current tax	–	60
– Under provision	–	463
	<hr/>	<hr/>
	–	523
PRC Corporate Income Tax (“CIT”)	57	487
Deferred tax	219	556
	<hr/>	<hr/>
	276	1,566
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the both periods ended 30 September 2019 and 30 September 2018, nor has any dividend been proposed since the end of the reporting period (30 September 2018: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	For the six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of basic earnings per share	3,829	1,899

	For the six months ended 30 September	
	2019	2018
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	499,276,680	499,276,680

10. 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 Vigers Appraisal & Consulting Limited (30 September 2018: Vigers Appraisal & Consulting Limited) by adopting the income capitalisation method.

For the period ended 30 September 2019, an unrealised loss on investment properties revaluation of HK\$2,400,000 (six months ended 30 September 2018: an unrealised gain of HK\$1,196,000) has been recognised in profit or loss.

11. TRADE AND OTHER RECEIVABLES

	At 30 September 2019 <i>HK\$'000</i> (unaudited)	At 31 March 2019 <i>HK\$'000</i> (audited)
Trade receivables	1,692	1,928
Less: Allowance for credit losses	<u>(71)</u>	<u>(71)</u>
	1,621	1,857
Deposits, prepayments and other receivables	4,140	5,456
Value-added tax recoverable	<u>11,536</u>	<u>13,477</u>
	<u><u>17,297</u></u>	<u><u>20,790</u></u>

The Group allows a credit period normally ranging from cash on delivery to 90 days to its trade customers.

The following is an analysis of trade receivables net of allowance for credit losses by age, presented based on the date of invoice at the end of each reporting period.

	At 30 September 2019 <i>HK\$'000</i> (unaudited)	At 31 March 2019 <i>HK\$'000</i> (audited)
Trade debtors aged:		
Within 1 month	387	–
1 to 2 months	237	367
2 to 3 months	136	–
Over 3 months	<u>861</u>	<u>1,490</u>
	<u><u>1,621</u></u>	<u><u>1,857</u></u>

12. LOAN AND INTEREST RECEIVABLES

	At 30 September 2019 <i>HK\$'000</i> (unaudited)	At 31 March 2019 <i>HK\$'000</i> (audited)
Fixed-rate loan receivables	12,000	12,000
Loan interest receivables	<u>130</u>	<u>80</u>
	12,130	12,080
Less: Allowance for credit losses	<u>(259)</u>	<u>(259)</u>
	<u><u>11,871</u></u>	<u><u>11,821</u></u>

The borrowers are private companies incorporated in Hong Kong and independent to the Group. The loans are repayable within one year from the end of the reporting period, secured by personal guarantees from shareholders of the borrowers and carry interest at the fixed rate of 10% per annum. The interests are repayable monthly or quarterly.

13. ASSET CLASSIFIED AS HELD FOR SALE

In March 2019, the directors of the Company resolved to dispose of two parking lot which were classified as investment properties, and a provisional sales and purchase agreement was signed. These investment properties, which were expected to be sold within twelve months, have been classified as assets held for sale and were presented separately in the consolidated statement of financial position. During this period, the disposal of the parking lots were completed at the consideration of HK\$4,003,000.

14. TRADE AND OTHER PAYABLES

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

	At 30 September 2019 <i>HK\$'000</i> (unaudited)	At 31 March 2019 <i>HK\$'000</i> (audited)
Trade payables		
Within 1 month	2,092	490
1 to 2 months	6	97
2 to 3 months	105	37
Over 3 months	52	213
	<hr/>	<hr/>
	2,255	837
Accrued charges	3,526	2,977
Other payables	1	2
Other taxes payable	885	969
Receipt in advance	–	232
	<hr/>	<hr/>
	6,667	5,017
	<hr/> <hr/>	<hr/> <hr/>

15. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2018, 30 September 2018, 1 April 2019 and 30 September 2019	<u>20,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1 April 2018, 30 September 2018, 1 April 2019 and 30 September 2019	<u>499,277</u>	<u>49,928</u>

16. PLEDGE OF ASSETS

As at 30 September 2019, the Group pledged certain of its investment properties with market value of HK\$157,800,000 (31 March 2019: HK\$96,203,000) 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\$39,776,000 with unutilised banking facilities of HK\$60,000,000 (31 March 2019: the Group had unutilised banking facilities of HK\$57,000,000).

17. EVENT AFTER THE REPORTING PERIOD

On 15 November 2019, Qingdao Holdings (Hong Kong) Limited (“Qingdao (HK)”), an indirectly wholly-owned subsidiary of the Company, entered into a joint venture agreement with China Nuclear Industry Zhongyuan Construction Co., Limited (“China Nuclear Industry”) and China Huadong Construction and Engineering Group Limited (“China Huadong”) in relation to the formation of a joint venture company (the “Joint Venture Company”). The Joint Venture Company will mainly engage in the operation of the project construction businesses in the PRC.

The registered capital of the Joint Venture Company is RMB100 million and will be contributed by the shareholders in cash. The Joint Venture Company will be 51% owned by Qingdao (HK), 30% owned by China Nuclear Industry and 19% owned by China Huadong respectively. Upon the establishment of the Joint Venture Company, it will become a subsidiary of the Company.

For details, please refer to the announcement of the Company dated 15 November 2019.

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 26 November 2019.

INTERIM DIVIDEND

The Board did not declare the payment of an interim dividend for the six months ended 30 September 2019 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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 September 2019, the Group managed to achieve a stable return and recorded a rental income of approximately HK\$15.8 million (2018: HK\$16.0 million) from the leasing of investment properties located in the PRC and Hong Kong.

Production and Sale of Digital Chinese Calligraphy Education Equipment

During the six months ended 30 September 2019, the revenue generated from the production and sale of digital Chinese calligraphy education equipment amounted to approximately HK\$11.9 million (2018: HK\$11.5 million). The Group has a solid foundation in this business segment as it has invested substantial capital for the research and development as well as the innovation of digital Chinese calligraphy education equipment. The Group expects that more personalized products will be launched in the second half of the year, which will enhance its leading position in the market and enlarge its market share.

Loan Financing

During the six months ended 30 September 2019, the Group's loan financing business managed to contribute a stable return and recorded a revenue of approximately HK\$0.6 million (2018: HK\$0.6 million). The Group will continue to maintain a sound credit control policy when advancing loans to its customers. The Group holds the principle that prudent measures are particularly important and essential in operating this business segment to avoid potential credit risks.

FINANCIAL REVIEW

Revenue and Results

For the six months ended 30 September 2019, the Group recorded a revenue of approximately HK\$28.3 million (2018: HK\$28.1 million), representing an increase of approximately HK\$0.2 million as compared with the corresponding period last year.

Cost of inventories sold for the six months ended 30 September 2019 was approximately HK\$7.0 million (2018: HK\$6.9 million).

Employee benefit expenses for the six months ended 30 September 2019 were approximately HK\$3.5 million (2018: HK\$2.6 million), representing an increase of approximately HK\$0.9 million. The increase was mainly attributable to the additional workforce employed for the production and sale of digital Chinese calligraphy education equipment.

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\$7.0 million for the six months ended 30 September 2019 (2018: HK\$3.8 million). Such unrealised gain was mainly due to the depreciation of RMB against US dollars and Hong Kong dollars and the change of the Group's functional currency from Hong Kong dollars to RMB starting from 1 April 2018.

Other operating expenses for the six months ended 30 September 2019 were approximately HK\$9.1 million (2018: HK\$8.8 million), representing an increase of approximately HK\$0.3 million as compared to the six months ended 30 September 2018.

Finance costs for the six months ended 30 September 2019 were approximately HK\$10.4 million (2018: HK\$10.6 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 September 2019, the profit for the period attributable to owners of the Company was approximately HK\$3.8 million (2018: HK\$1.9 million) and the earnings per share was 0.76 HK cents (2018: 0.38 HK cents). The favourable impact from the increase in exchange gain was partially offset by the decrease in fair value of investment properties amounting to approximately HK\$2.4 million.

Liquidity

As at 30 September 2019, the total assets of the Company amounted to approximately HK\$715.1 million (31 March 2019: HK\$742.8 million), whereas the total liabilities of the Group amounted to approximately HK\$435.3 million (31 March 2019: HK\$453.7 million).

Accordingly, the net assets of the Company as at 30 September 2019 was HK\$279.9 million (31 March 2019: HK\$289.1 million).

The gearing ratio of the Company, being total liabilities to total assets, was 60.9% as at 30 September 2019 (31 March 2019: 61.1%). 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 September 2019 and 31 March 2019 was 499,276,680 shares.

Pledge of Assets

As at 30 September 2019, the Group pledged certain of its investment properties with a market value of HK\$157.8 million (31 March 2019: HK\$96.2 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 30 September 2019, the Group has unutilised banking facilities of HK\$60.0 million (31 March 2019: the Group had unutilised banking facilities of HK\$57 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 September 2019, RMB devalued 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 September 2019 and 31 March 2019, the Group did not have any material contingent liabilities or capital commitments.

Employees and Remuneration Policy

As at 30 September 2019, the Group had 69 employees. The directors of the Company (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

2019 is a challenging year shrouded in uncertainties brought about by, among others, the US-China tension and the social unrest in Hong Kong. The Group will closely monitor the impact of these negative factors on its leasing business.

Looking ahead, since Chinese calligraphy training has been made compulsory for students in primary and secondary schools across the PRC, the Group is optimistic about the prospects of its Chinese calligraphy education related products. Meanwhile, the Group is planning for the launch of personalized calligraphy education related products in the second half of the financial year in order to broaden its income stream. As the Group's target market is in the PRC, the Group expects that this business segment will not be adversely affected by the US-China tension or other external uncertainties or fluctuations in the financial markets.

The Group will continue to identify and pursue profitable investment opportunities to expand its sources of revenue and enhance its business prospects. The Company is committed to maximising shareholders' wealth.

EVENTS AFTER THE REPORTING PERIOD AND SUPPLEMENTAL INFORMATION TO THE DISCLOSEABLE TRANSACTION

On 15 November 2019, Qingdao Holdings (Hong Kong) Limited (“Qingdao (HK)”), an indirect 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 a joint venture company (the “Joint Venture Company”). The Joint Venture Company will engage in the operation of various businesses in the PRC, which include but are not limited to urban reconstruction and development, construction and management of parks, construction and management of municipal facilities, procurement of materials, equity investment and capital deployment, construction of buildings, municipal engineering works, road constructions, electrical installation and engineering works, environmental protection engineering and other civil engineering works, consultancy, and design (subject to the approval of the local government in the PRC).

To the best knowledge, information and belief of the Directors after making all reasonable enquiries, China Nuclear Industry, China Huadong and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

The ultimate beneficial owner of China Nuclear Industry is China National Nuclear Corporation (中國核工業集團有限公司), a state-owned enterprise under direct management of the central government.

As supplemental information, the ultimate beneficial owner of China Huadong is Mr. Ding Jun (“Mr. Ding”). Mr. Ding is an entrepreneur with extensive experience in building construction and public facilities industry in the PRC.

Entering into of the Joint Venture Agreement constituted a discloseable transaction for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), details of which were set out in the announcement of the Company dated 15 November 2019.

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 had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2019.

MODEL CODE FOR 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 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 September 2019.

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 September 2019.

AUDITOR AND AUDIT COMMITTEE

Messrs. Deloitte Touche Tohmatsu (“Deloitte”) resigned as the auditor of the Company with effect from 19 November 2019. Messrs. Ernst & Young was appointed as the new auditor of the Company with effect from 26 November 2019 to fill the vacancy occasioned by the resignation of Deloitte and to hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the Company’s announcements dated 19 November 2019 and 26 November 2019.

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, including the review of the unaudited interim results for the six months ended 30 September 2019. The Audit Committee 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.

By order of the Board
Qingdao Holdings International Limited
Xing Luzheng
Executive Director and Chairman

Hong Kong, 26 November 2019

As at the date of this announcement, the Executive Directors are Mr. Xing Luzheng (Chairman), Mr. Jiang Yi (Chief Executive Officer), Mr. Wang Yimei and Mr. Yuan Zhi; 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*