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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 JUNE 2021

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 June 2021 together with the comparative figures for the six months ended 30 June 2020 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	<i>Notes</i>	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Revenue			
– Goods		11,043	6,763
– Rental		13,710	13,994
– Interest		–	61
		<hr/>	<hr/>
Total revenue	4	24,753	20,818
Cost of Inventory		(5,974)	(4,114)
Increase in fair value of investment properties		10,584	4,252
Other income	4	10,985	642
Other gains and losses	4	918	1,359
Impairment reversal on financial assets, net		(30)	300
Employee benefits expenses		(7,965)	(3,945)
Other operating expenses		(18,596)	(8,256)
Finance costs	5	(11,274)	(9,310)
		<hr/>	<hr/>

	<i>Notes</i>	2021 RMB'000 (unaudited)	2020 <i>RMB'000</i> (unaudited) (restated)
Profit before tax	6	3,401	1,746
Income tax expense	7	<u>(3,040)</u>	<u>(1,706)</u>
Profit for the period		<u>361</u>	<u>40</u>
Attributable to:			
Owners of the parent		3,520	1,479
Non-controlling interests		<u>(3,159)</u>	<u>(1,439)</u>
		<u>361</u>	<u>40</u>
Earnings per share			
– Basic (<i>RMB cents</i>), profit for the period attributable to ordinary owners of the parent	9	<u>0.57</u>	<u>0.30</u>
– Diluted (<i>RMB cents</i>), profit for the period attributable to ordinary owners of the parent	9	<u>0.57</u>	<u>0.30</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited) (restated)
Profit for the period	361	40
Other comprehensive (loss)/income		
<i>Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(1,611)	3,850
Other comprehensive (loss)/income, net of tax	(1,611)	3,850
Total comprehensive (loss)/income, net of tax	(1,250)	3,890
Attributable to:		
Owners of the Company	1,909	5,329
Non-controlling interests	(3,159)	(1,439)
	(1,250)	3,890

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment	10	38,871	18,573
Investment properties	11	490,785	481,857
Right-of-use assets		2,062	2,655
Goodwill		5,210	5,210
Other intangible assets		16,229	17,446
Investments in joint ventures		1,000	1,000
Deferred tax assets		4,422	2,571
Trade and other receivables	13	–	3,000
Amount due from a joint venture		<u>169,080</u>	<u>126,085</u>
 Total non-current assets		 <u>727,659</u>	 <u>658,397</u>
Current assets			
Inventories	12	53,051	10,523
Trade and other receivables	13	24,116	13,949
Contract assets		4,787	4,787
Amount due from a joint venture		–	1,273
Financial asset at fair value through profit or loss		11,326	2,671
Cash and cash equivalents	14	<u>221,758</u>	<u>108,156</u>
 Total current assets		 <u>315,038</u>	 <u>141,359</u>
Current liabilities			
Trade and other payables	15	9,377	11,369
Contract liabilities		4,239	5,066
Rental deposits from tenants		–	19
Interest-bearing bank borrowings		37,285	37,716
Amount due to an intermediate holding company		42,129	–
Income tax payable		<u>8</u>	<u>388</u>
 Total current liabilities		 <u>93,038</u>	 <u>54,558</u>
 Net current assets		 <u>222,000</u>	 <u>86,801</u>
 Total assets less current liabilities		 <u>949,659</u>	 <u>745,198</u>

		30 June	31 December
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
		(unaudited)	(audited)
Non-current liabilities			
Rental deposits from tenants		598	588
Interest-bearing bank and other borrowings		10,473	1,781
Loan from the ultimate holding company		474,100	444,100
Deferred tax liabilities		15,342	10,194
		<hr/>	<hr/>
Total non-current liabilities		500,513	456,663
		<hr/>	<hr/>
Net assets		449,146	288,535
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Equity attributable to owners of the parent			
Share capital	16	81,257	39,942
Reserves		302,645	182,135
		<hr/>	<hr/>
		383,902	222,077
		<hr/>	<hr/>
Non-controlling interests		65,244	66,458
		<hr/>	<hr/>
		449,146	288,535
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 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 December 2020.

Change of presentation currency

Pursuant to a resolution of the Board passed on 31 December 2020, the Group’s presentation currency for its consolidated financial statements has been changed from HK\$ to RMB. The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if RMB had always been the presentation currency of the consolidated financial statements. The condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2020, and certain explanatory notes have been restated to conform with the current period presentation.

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 December 2020, 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.

HKAS 39, HKFRS 7, HKFRS 4 and
HKFRS 16

Interest Rate Benchmark Reform

Amendment to HKFRS 16

Covid-19-Related Rent Concessions beyond 30 June 2021
(early adopted)

These amendments had no impact on the interim condensed consolidated financial statements of the Group.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four 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;
- (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; and
- (d) Consulting service: this segment provides construction project supervision, project cost consulting services and bidding consulting in the Chinese mainland.

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, certain 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, certain other receivables of the corporate office and assets classified as held for sale.

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 2021 (unaudited)

	Segment revenue <i>RMB'000</i> (unaudited)	Segment results <i>RMB'000</i> (unaudited)
Leasing of properties	13,710	11,295
Production and sale of education equipment	11,043	(5,727)
Consulting service	–	(3,209)
Loan financing	–	(9)
Segment total	<u>24,753</u>	2,350
Increase in fair value of investment properties		10,584
Unallocated income		11,073
Unallocated expenses		<u>(20,606)</u>
Profit before tax		<u>3,401</u>

For the six months ended 30 June 2020 (unaudited)

	Segment revenue <i>RMB'000</i> (unaudited) (restated)	Segment results <i>RMB'000</i> (unaudited) (restated)
Leasing of properties	13,994	12,373
Production and sale of education equipment	6,763	(295)
Loan financing	61	223
Segment total	<u>20,818</u>	12,301
Increase in fair value of investment properties		4,252
Unallocated income		642
Unallocated expenses		<u>(15,449)</u>
Profit before tax		<u>1,746</u>

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 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)	30 June 2021 <i>RMB'000</i> (unaudited)	31 December 2020 <i>RMB'000</i> (audited)
Leasing of properties	673,927	615,517	490,981	447,530
Production and sale of education equipment	70,365	45,168	53,269	46,070
Consulting service	47,979	9,666	44,692	345
Segment total	<u>792,271</u>	670,351	<u>588,942</u>	493,945
Unallocated:				
Cash and cash equivalents	221,758	108,156	–	–
Others	28,668	21,249	4,609	17,276
Total	<u>1,042,697</u>	<u>799,756</u>	<u>593,551</u>	<u>511,221</u>

Geographical information

(a) Revenue from external customers

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Mainland China	23,199	18,919
Hong Kong	1,554	1,899
	<u>24,753</u>	<u>20,818</u>

(b) Non-current assets

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
	Mainland China	402,376
Hong Kong	151,781	155,854
	<u>554,157</u>	<u>526,741</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

4. REVENUE, OTHER INCOME, OTHER GAINS AND LOSSES

Revenue

An analysis of revenue from contracts with customers is as follows:

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
<i>Revenue from contracts with customers</i>		
Sale of education equipment	11,043	6,763
<i>Revenue from other sources</i>		
Gross rental income from investment property operating leases with fixed payments	13,710	13,994
Loan financing	–	61
	<u>24,753</u>	<u>20,818</u>

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:

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Bank interest income	178	228
Investment income from financial assets at fair value through profit or loss	75	362
Investment income from other financial assets	431	33
Interest from entrusted loans	10,192	–
Government grant	85	–
Others	24	19
	<u>10,985</u>	<u>642</u>

Other gains and losses

An analysis of other gains and losses is as follows:

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Net foreign exchange gain	830	1,838
Gain/(loss) from change in fair value of financial assets at fair value through profit or loss, net	88	(479)
	<u>918</u>	<u>1,359</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Interest expenses on:		
Amount due to an intermediate holding company	540	–
Loan from the ultimate holding company	10,248	8,306
Bank loans	442	913
Lease liabilities	44	91
	<u>11,274</u>	<u>9,310</u>

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Depreciation of property, plant and equipment	735	766
Depreciation of right-of-use assets	593	921
Amortisation of intangible assets	1,217	1,217
Impairment loss/(reversal) on financial assets, net	30	(300)
Investment income from financial assets at fair value through profit or loss	(75)	(362)
Investment income from other financial assets	(431)	(33)
Government grant	(85)	–
Net foreign exchange gain	(830)	(1,838)
(Gain)/loss from change in fair value of financial assets at fair value through profit or loss, net	(88)	479
Cost of inventory	5,974	4,114

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 the six months ended 30 June 2021 and 30 June 2020.

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 for high-tech enterprises in Mainland China was 15%, and the tax rate for other Mainland China subsidiaries was 25% for the six months ended 30 June 2021 and 30 June 2020.

	For the six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited) (restated)
Current tax – Hong Kong		
Underprovision/(overprovision) in prior year	30	(143)
Current tax – Mainland China		
Overprovision in prior years	(303)	–
Deferred	3,313	1,849
Total tax charge for the period	3,040	1,706

12. INVENTORIES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Leasehold land (<i>Note (a)</i>)	39,544	–
Raw materials	9,107	7,425
Finished goods	4,400	3,098
	<u>53,051</u>	<u>10,523</u>

Note:

- (a) The leasehold land was generated by the acquisition of a subsidiary, which was recognized as an asset acquisition instead of a business combination.

13. TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Current portion:		
Trade receivables	10,967	955
Less: Allowance for credit losses	(132)	(107)
	<u>10,835</u>	<u>848</u>
Deposits, prepayments and other receivables	6,968	6,948
Value-added tax recoverable	6,313	6,153
	<u>24,116</u>	<u>13,949</u>
Non-current portion: Prepayments	–	3,000
	<u>24,116</u>	<u>16,949</u>

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 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Within 1 month	3,074	315
1 to 2 months	2,287	–
2 to 3 months	2,266	–
Over 3 months	3,208	533
	<u>10,835</u>	<u>848</u>

14. CASH AND CASH EQUIVALENTS

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Cash and bank balances	210,758	86,151
Time deposits	11,000	22,005
	<u>221,758</u>	<u>108,156</u>

15. TRADE AND OTHER PAYABLES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade payables	1,293	965
Accrued charges	6,107	7,065
Other payables	1,015	275
Other taxes payable	831	2,931
Receipt in advance	131	133
	<u>9,377</u>	<u>11,369</u>

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 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Within 1 month	197	845
1 to 2 months	–	21
Over 3 months	1,096	99
	<u>1,293</u>	<u>965</u>

16. SHARE CAPITAL

Shares

The number of authorized capital is 20,000,000,000. The par value per share is HK\$0.1.

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Issued and fully paid 998,553,360 (2020: 499,276,680) ordinary shares	81,257	39,942

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

	Number of shares in issue	Share capital RMB'000
At 1 January 2020, 31 December 2020 and 1 January 2021 (audited)	499,276,680	39,942
Rights issue (<i>Note (a)</i>)	499,276,680	41,315
At 30 June 2021 (unaudited)	998,553,360	81,257

Note:

- (a) A rights issue of one rights share for every 1 existing shares held by members on the register of members on 17 May 2021 was made, at an issue price of approximately RMB0.32 (HK\$0.39) per rights share, resulting in the issue of 499,276,680 shares for a total cash consideration, before expenses, of RMB161,129,067. The expense of share issue is approximately RMB1,212,548.

17. PLEDGE OF ASSETS

- (a) As at 30 June 2021, the Group pledged certain of its investment properties with market value of RMB134,585,000 (31 December 2020: RMB135,157,000) 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 RMB36,149,000 (31 December 2020: RMB36,597,000). As at 30 June 2021, the Group had unutilised banking facilities of RMB47,031,000 (31 December 2020: RMB47,613,000).
- (b) As at 30 June 2021, the Group pledged certain of its property, plant and equipment with book value of RMB21,196,000 (31 December 2020: Nil) to a bank in Mainland to obtain a mortgage financing from a bank in Mainland of RMB9,570,000 (31 December 2020: Nil).

18. RELATED PARTY DISCLOSURES

- (a) As at 30 June 2021, a RMB-denominated loan from the ultimate holding company of RMB344,000,000 (30 June 2020: RMB344,000,000) still existed with the maturity date of 31 December 2022. The loan is unsecured and bears interest at a fixed rate of 4.75% per annum. The Company has recognised an interest expense on the loan amounting to RMB8,261,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB8,306,000).
- (b) At 7 May 2020, Qingdao Qifeng Technology Services Co., Ltd.* (“Qifeng”, an indirect wholly-owned subsidiary of the Company), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* (“QURC Micro-credit Loan Company”) and Huizhou Jiuyu Real Estate Company Limited* (“Huizhou Jiuyu”, a joint venture 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, with a loan term of 2 years in accordance with the terms of the entrusted loan contract. As at 30 June 2021, a RMB-denominated loan was provided to Huizhou Jiuyu of RMB169,100,000 and bears interest at a fixed rate of 15% per annum. The Company has recognised interest income on the loan amounting to RMB10,192,000 for six months ended 30 June 2021, and the outstanding balance of interest receivable due to Huizhou Jiuyu was nil as at 30 June 2021. Pursuant to the Entrusted Loan Contract, the loan is guaranteed by the leasehold land and buildings owned by Huizhou Jiuyu and an interest in Huizhou Yanlong Land Company Limited* (“Huizhou Yanlong”, the parent company of Huizhou Jiuyu) owned by Huizhou Meile Land Company Limited.

As at 30 June 2021, the expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current condition as appropriate. The loss rate applied at 30 June 2021 was 0.01%.

Qingdao City Construction Investment (Group) Limited* (“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, an 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 the loan provided by QCCIG to fund the entrusted loan to be made to Huizhou Jiuyu. As at 30 June 2021, a RMB-denominated loan from the ultimate holding company of RMB130,100,000 was unsecured and bears interest at a fixed rate of 3.85% per annum (as at 31 December 2020: RMB100,100,000). Huizhou Jiuyu and Qifeng had not drawn the loans as of 30 June 2020. The company has recognised an interest expense on the loan amounting to RMB1,987,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

- (c) The Group has leased one of its commercial properties in Hong Kong under an operating lease agreement to an intermediate holding company, China Qingdao Development (Holdings) Group Company Limited. The initial lease period is from 1 June 2019 to 31 May 2021, and renewed to extend the maturity date to 31 May 2022. The Group has recognised rental income of RMB115,000 for six months ended 30 June 2021 (six months ended 30 June 2020: RMB126,000), and the outstanding balances due to the intermediate holding company of RMB19,000 and RMB19,000, which are included in rental deposits from tenants and trade and other payables in the consolidated statement of financial position as at the end of the reporting period respectively are unsecured, interest-free and have no fixed terms of repayment.
- (d) As at 30 June 2021, a Hong Kong denominated loan from an intermediate holding company of HK\$50,000,000 (equivalent to RMB41,590,000) was unsecured, bore interest at a fixed rate of 2.80% per annum. The Company has recognised interest expense on the loan amounting to HK\$648,000 (equivalent to RMB539,000) for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil). The interest payable of RMB539,000 which was included in an amount due to an intermediate holding company in the consolidated statement of financial position as at 30 June 2021.

19. EVENT AFTER THE REPORTING PERIOD

On 17 March 2021, Yangfan (Holdings) Group Limited (the “Purchaser”, an indirect wholly-owned subsidiary of the Company) and CQDHG (the “Vendor”) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Qingdao Rural Construction Financial Leasing Company Limited (the Target Company), at a consideration of approximately RMB1,982.3 million (approximately HK\$2,378.7 million). The consideration in respect of the Acquisition (the “Consideration”) shall be satisfied as follows: (i) approximately RMB128.8 million (approximately HK\$154.5 million) shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately RMB1,853.5 million (approximately HK\$2,224.2 million) shall be payable by the issue of the convertible bonds (“Consideration CB”) by the Company to the Vendor (or its nominee(s)) upon completion of the Acquisition. Further details of this transaction are set out in the Company’s announcement dated 17 March 2021.

Upon Completion, the Company will issue the Consideration CB in the principal amount of approximately RMB1,853.5 million (approximately HK\$2,224.2 million) at nil coupon rate to the Vendor (or its nominee(s)) to settle part of the Consideration. The Initial Conversion Price is approximately RMB1.56 (HK\$1.87) per Conversion Share, subject to the adjustment mechanism as set out in the instrument of the Consideration CB.

The conditions to the transaction has not been satisfied as at the date of the announcement.

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The interim financial information was approved and authorised for issue by the board of directors on 30 August 2021.

INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (the “Period”) (30 June 2020: Nil).

CHANGE OF PRESENTATION CURRENCY

Pursuant to a resolution of the Board passed on 31 December 2020, the Group’s presentation currency for its consolidated financial statements has been changed from HK\$ to RMB. As most of the Group’s transactions are denominated and settled in RMB, the Board considers that RMB is more appropriate as the presentation currency for the Group’s consolidated financial statements. Further, the Board considers that the change of presentation currency will enable the shareholders (the “Shareholders”) and potential investors of the Company to have a clearer picture of the Group’s actual financial performance. The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if RMB had always been the presentation currency of the consolidated financial statements.

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; (iii) provision of consulting services; and (iv) provision of loan financing services.

Leasing of Investment Properties

During the Period, the Group managed to achieve a stable return and recorded a rental income of approximately RMB13.7 million (2020: RMB14.0 million) from the leasing of investment properties located in the People’s Republic of China (the “PRC”) and Hong Kong.

Production and Sale of Digital Chinese Calligraphy Education Equipment and Related Learning and Tutorial Systems

During the Period, the revenue generated from the production and sale of digital Chinese calligraphy education equipment and related learning and tutorial systems amounted to approximately RMB11.0 million (2020: RMB6.8 million), representing an increase of approximately 61.8%, mainly because the coronavirus disease 2019 (“COVID-19 outbreak”) was gradually brought under control in the PRC enabling the Group to revive the scheduled works for installing digital Chinese calligraphy education equipment in classrooms according to purchase orders placed by customers of the Group.

The Directors believed that the Group has a solid foundation in this business segment as it has invested substantial capital in the research and development as well as the innovation of digital Chinese calligraphy education equipment.

Provision of Consulting Services

The Group commenced this business segment since second half of 2020. During the Period, the provision of consulting services segment did not generate any revenue (2020: Nil). The consulting services mainly included consulting services provided to developers engaged in the construction and development of properties in new districts.

The Group is optimistic for the significant business opportunities posed to this business segment going forward. It is believed that revenue could be generated in the second half of the year.

Provision of Loan Financing

The segment provides loan financing services to individuals or corporate customers in Hong Kong. The Group's loan financing business did not generate revenue during the Period (2020: RMB0.06 million).

The Group will continue to develop this business by employing prudent credit control procedures and strategies to maintain a balance between business growth and risk management. The Group is still keen on proceeding its loan financing business and will explore various opportunities in its best effort. It is expected that such business will continue to be part of the main income streams of the Group, in view of the new entrusted loan activities as more described in the section headed "The Provision of Entrusted Loan" of this announcement.

FINANCIAL REVIEW

Revenue and Results

During the Period, the Group recorded a consolidated revenue of approximately RMB24.8 million (2020: RMB20.8 million), representing an increase of approximately 19.2% as compared with the corresponding period last year.

Cost of inventory sold for the Period was approximately RMB6.0 million (2020: RMB4.1 million), representing an increase of approximately 46.3% as compared with the corresponding period last year.

Other income for the Period was approximately RMB11.0 million (2020: RMB0.6 million), representing an increase of approximately 1,733.3%. The increase was mainly attributable to the interest income from the provision of entrusted loan of approximately RMB10.2 million.

Employee benefit expenses for the Period were approximately RMB8.0 million (2020: RMB3.9 million), representing an increase of approximately RMB4.1 million as compared with the corresponding period last year. The increase was mainly attributable to the additional workforce employed for the production and sale of digital Chinese calligraphy education equipment and related learning and tutorial systems segment and the increase in commission for the marketing staff.

Other operating expenses for the Period were approximately RMB18.6 million (2020: RMB8.3 million). The increase was mainly attributable to (i) the increase in marketing expenses to promote our Chinese calligraphy education equipment when the COVID-19 pandemic was under control in 2021, and (ii) the increase in legal and professional fees arising from proposed acquisitions during the Period. For details of the proposed acquisitions, please refer to the section headed “Material Transactions – Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Rights Issue” in this announcement.

Finance costs for the Period were approximately RMB11.3 million (2020: RMB9.3 million). Finance costs included interest payable for the unsecured loans provided by the intermediate holding company and the ultimate holding company of the Company and interest payable for the secured loan provided by a bank.

The profit for the Period attributable to owners of the Company was approximately RMB3.5 million (2020: RMB1.5 million) and the earnings per share was RMB0.57 cents (2020: RMB0.3 cents). Such increase was mainly attributable to the increase in fair value of investment properties and other income, which was partially offset by (i) the increase in interest expenses payable to the intermediate holding company and the ultimate holding company; (ii) the increase in deferred tax; and (iii) legal and professional fees paid or payable.

Liquidity

As at 30 June 2021, the total assets of the Company amounted to approximately RMB1,042.7 million (31 December 2020: RMB799.8 million), whereas the total liabilities of the Group amounted to approximately RMB593.6 million (31 December 2020: RMB511.2 million).

Accordingly, the net assets of the Company as at 30 June 2021 was RMB449.1 million (31 December 2020: RMB288.5 million).

The gearing ratio of the Company, being total liabilities to total assets, was 56.9% as at 30 June 2021 (31 December 2020: 63.9%). The Directors believe that the Group 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 2021 was 998,553,360 Shares (31 December 2020: 499,276,680 Shares). Such increase was due to the completion of rights issue of the Company on 17 May 2021. For details, please refer to the section headed “Material Transactions – Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Rights Issue” in this announcement.

The capital structure of the Group consists of debts, which includes bank borrowings, net of bank balances and cash and equity attributable to owners of the parent, comprising share capital and reserves.

Pledge of Assets

As at 30 June 2021, the Group pledged certain of its investment properties with a market value of RMB134.6 million (31 December 2020: RMB135.2 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 30 June 2021, the Group also pledged its leasehold land and building with a cost of RMB21.2 million (31 December 2020: Nil) to a bank in PRC to secure mortgage financing facilities granted to the Group.

As at 30 June 2021, the Group had unutilized banking facilities of RMB47.0 million (31 December 2020: RMB47.6 million).

Foreign Exchange Exposure

The Group’s financial statements are presented in Renminbi. The Group carried out its business transactions mainly in Hong Kong dollars, Renminbi 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 Hong Kong.

Capital Commitments

The Group’s capital commitments including capital contributions payable to joint ventures amounted to approximately RMB8.9 million as at 30 June 2021.

The Group’s capital commitments including leasehold land and buildings and capital contributions payable to joint ventures amounted to approximately RMB28.9 million as at 31 December 2020.

Contingent Liabilities

As at 30 June 2021 and 31 December 2020, the Group did not have any material contingent liabilities.

Employees and Remuneration Policy

As at 30 June 2021, the Group had 73 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 labor 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 business environment had not significantly improved in the first half of the year. The Board considered that the general outlook of the environment will remain challenging in the second half of the year. To overcome the challenges caused by the COVID-19 pandemic, the Group will adhere to prudent financial management and stringent cost control and will continue to explore good business and investment opportunities to drive our business growth. The Group believes the pandemic will ultimately stabilize and should not have a significant impact on the Group's operations in the long term.

We thank our employees for their hard work and perseverance, and the members of the Board for their guidance. Most of all, we thank all our stakeholders, 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 its 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 Shareholders and maximise Shareholders' wealth.

MATERIAL TRANSACTIONS

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 a joint venture company (the "Joint Venture Company"). The Joint Venture Company 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 in the PRC.

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 Microcredit 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 would 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 Microcredit Loan Company as security of the Entrusted Loan. As at the date of this announcement, the land use rights of the Land and its construction-in-progress property project on the Land have 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 used its internal resources and the Financial Assistance to fund the Entrusted Loan for the year ended 31 December 2020 and for the Period.

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 interest income of the Group and hence, 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 expects to benefit from Huizhou Jiuyu on a pro-rata basis based on the performance of Huizhou Jiuyu. It is planned 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), 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 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 30 June 2021, the Entrusted Loan in the amount of RMB169,100,000 was drawn down by Huizhou Jiuyu (31 December 2020: RMB126,100,000).

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 10 June 2020.

The Acquisition of 95% Equity Interest in Bengbu City Huai Yi Construction and Development Ltd.* (蚌埠市淮翼建設發展有限公司) (“Huai Yi”) by a Non Wholly-Owned Subsidiary

NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) (a non wholly-owned subsidiary of the Company) was notified on 12 March 2021 that it won the bid to acquire 95% equity interest in Huai Yi from Bengbu City Bin He Construction and Investment Limited* (蚌埠市濱河建設投資有限公司) (“Bin He Construction”), an independent third party, in a public listing-for-sale process organised by the Bengbu City Assets and Equity Exchange Center* (蚌埠市產權交易中心) (the “Huai Yi Acquisition”). The consideration for the Huai Yi Acquisition is RMB37,564,000. The completion of the Huai Yi Acquisition took place on 24 May 2021. Upon completion of the Huai Yi Acquisition, the Company indirectly held 95% equity interests in Huai Yi and the financial results of Huai Yi were consolidated into the financial statements of the Group.

For further details, please refer to the announcements of the Company dated 15 March 2021 and 24 May 2021, respectively.

Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Rights Issue

On 17 March 2021, Yangfan (Holdings) Group Limited (揚帆(控股)集團有限公司) (a wholly-owned subsidiary of the Company) (the “Purchaser”) and China Qingdao Development (Holdings) Group Company Limited (華青發展(控股)集團有限公司) (the “Vendor”), being a controlling shareholder and a connected person of the Company, entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire (the “Acquisition”), and the Vendor conditionally agreed to sell, approximately 81.91% of the equity interest in Qingdao Rural Construction Financial Leasing Company Limited* (青島城鄉建設融資租賃有限公司).

The consideration in respect of the Acquisition (the “Consideration”) shall be satisfied as follows: (i) approximately HK\$154.5 million shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately HK\$2,224.2 million shall be payable by the issue of the convertible bonds (“Consideration CB”) by the Company to the Vendor (or its nominee(s)) upon completion of the Acquisition. The Acquisition constitutes a very substantial acquisition of the Company.

In order to raise sufficient funds to settle part of the consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the offer of new shares of the Company (“Share(s)”) (the “Rights Issue”) to Shareholders other than overseas Shareholder(s) in respect of whom the Directors, based on the legal advice provided by the legal advisers in the relevant jurisdictions, consider it necessary or expedient to exclude from the Rights Issue, on account either of the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place on the basis of one (1) new Share to be allotted in respect of the Rights Issue (the “Rights Share”) for every one (1) existing Share. China Qingdao International (Holdings) Company Limited (“CQIH”), a Controlling Shareholder, was wholly owned by the Vendor. Accordingly, the Vendor is an associate of CQIH and a connected person of the Company. The Acquisition is therefore a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”). Since one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Rights Issue is also subject to independent Shareholders’ approval. At the special general meeting of the Company held on 13 April 2021, resolutions for approval of the Acquisition and the Rights Issue were passed by the independent Shareholders. The Company has completed the Rights Issue and issued 499,276,680 new Shares at the subscription price of HK\$0.39 per Rights Share on the basis of one Rights Share for every one existing Share of the Company during the Period.

The net proceeds from the Rights Issue was approximately RMB159.9 million, which has not been utilized and all of the net proceeds were deposited with the Group's bank account for temporary interest earning as at the date of this announcement, pending the satisfaction of certain conditions precedent to the Acquisition.

Certain approvals required to be obtained on the part of the Vendor in respect of the Acquisition have not yet been obtained as at the date of this announcement. On 13 July 2021, the Purchaser and the Vendor have agreed in writing to extend the long stop date of the Acquisition to 30 November 2021 (or such other date as may be agreed by the Purchaser and the Vendor in writing).

For details, please refer to the announcements of the Company dated 17, 22, 24 March 2021, 13 April 2021, 17, 31 May 2021 and 13 July 2021 and the circular of the Company dated 24 March 2021 and the prospectus of the Company dated 26 April 2021.

Save as disclosed above, there is no event after the Period which would have a material impact on the Company's financial position.

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 Period, except for the deviation set out below.

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Due to the travel restrictions imposed as a result of the outbreak of COVID-19, Mr. Gao Yuzhen, the Chairman of the Board, could not attend the annual general meeting of the Company held on 4 June 2021.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the Directors. The Company has made specific enquiries with all Directors and is satisfied that they had complied with the Model Code throughout the Period.

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

Save as the Rights Issue as disclosed in the section headed “Material Transactions – Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Rights Issue” in this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the Period.

EVENT AFTER THE PERIOD

Save as disclosed in note 19 of the financial information in this announcement, there is no event after the 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 announcement 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, 30 August 2021

As at the date of this announcement, 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*