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ZHIDAO INTERNATIONAL (HOLDINGS) LIMITED

志道國際(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 01220)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

The board of directors (the “**Board**”) of Zhidao International (Holdings) Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 September 2019 (the “**Period**”), together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended 30 September 2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
	<i>Notes</i>		
REVENUE	4,5	156,291	38,595
Cost of sales		(131,131)	(28,705)
Gross profit		25,160	9,890
Other income and gains	5	2,796	10,378
General and administrative expenses		(13,713)	(8,846)
Net unrealised (loss)/gain arising on revaluation of financial assets at fair value through profit or loss	6	(10,879)	13,632
Impairment of loan and interest receivables		(715)	–
Impairment of amount due from associates		(1,271)	(814)
PROFIT BEFORE TAX	6	1,378	24,240
Income tax expense	7	(194)	(360)
PROFIT FOR THE PERIOD		1,184	23,880

* For identification purposes only

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

For the six months ended 30 September 2019

		Six months ended 30 September 2019	2018
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		<u>24</u>	<u>(5,889)</u>
NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>24</u>	<u>(5,889)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>1,208</u></u>	<u><u>17,991</u></u>
Profit attributable to:			
Owners of the Company		(4,003)	22,476
Non-controlling interests		<u>5,187</u>	<u>1,404</u>
		<u><u>1,184</u></u>	<u><u>23,880</u></u>
Total comprehensive income attributable to:			
Owners of the Company		(3,979)	16,587
Non-controlling interests		<u>5,187</u>	<u>1,404</u>
		<u><u>1,208</u></u>	<u><u>17,991</u></u>
(LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	<u><u>(0.20) cent</u></u>	<u><u>1.14 cent</u></u>
Diluted		<u><u>(0.20) cent</u></u>	<u><u>1.14 cent</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		17,136	5,004
Tangible assets		543	543
Right-of-use asset		274	–
Contract assets		5,046	5,497
Interests in associates		15,927	17,198
Total non-current assets		38,926	28,242
CURRENT ASSETS			
Inventories		–	5,461
Trade receivables	10	36,803	14,785
Loan and interest receivables	11	128,709	152,753
Contract assets		82,810	16,980
Prepayments, deposits and other receivables	12	72,451	111,238
Financial assets at fair value through profit or loss	13	78,178	68,341
Pledged bank deposits	14	7,541	7,541
Cash and cash equivalents	14	142,423	145,219
Total current assets		548,915	522,318
CURRENT LIABILITIES			
Trade payables		78,912	17,590
Other payables and accruals		1,783	2,340
Contract liabilities		24,215	38,605
Lease liabilities		232	–
Interest-bearing bank and other borrowings		15,963	32,547
Tax payables		1,137	1,440
Total current liabilities		122,242	92,522
NET CURRENT ASSETS		426,673	429,796

	At 30 September 2019 (Unaudited) <i>Notes</i> HK\$'000	At 31 March 2019 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Retention payables	7,554	1,246
Lease liabilities	45	–
Interest-bearing bank and other borrowings	13,913	13,913
Total non-current liabilities	21,512	15,159
Net assets	444,087	442,879
EQUITY		
Equity attributable to owners of the Company		
Issued capital	19,800	19,800
Reserves	421,018	424,997
Equity attributable to owners of the Company	440,818	444,797
Non-controlling interests	3,269	(1,918)
Total equity	444,087	442,879

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in Bermuda on 8 July 1997. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is situated at Room 2606, 26/F, C C Wu Building, 302–308 Hennessy Road, Wan Chai, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in (i) trading of aluminium products; (ii) supply of aluminium products in the construction projects; (iii) money lending business.

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 23 September 1997.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2019 have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) (including HKAS 34 “**Interim Financial Reporting**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), and accounting principles generally accepted in Hong Kong. In addition, the condensed consolidated financial statements include applicable disclosures required by Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). They have been prepared under the historical cost convention. These condensed consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

These condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2019.

Except as described below, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 March 2019.

These condensed consolidated financial statements have not been audited, but have been reviewed by the audit committee of the Company.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2019.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 April 2019 for the preparation of the Group's condensed consolidated financial statements:

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“**HKAS 17**”), and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of staff quarter and office premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the condensed consolidated financial statements.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately.

Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 April 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease. The application of new definition of a lease does not have material impact on condensed consolidated financial statements.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 April 2019. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease terms which end within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment;
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

When recognising the lease liabilities for leases previously classified as operating lease, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 5.125%.

4. OPERATING SEGMENT INFORMATION

The Group's chairman, who is the chief operating decision maker, monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, gain on disposal of subsidiaries, written back of impairment of associates and share of losses of associates, as well as head office and corporate income and expenses are excluded from such measurement.

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Segment revenue		
Transactions with external customers:		
Trading of aluminium products	–	–
Construction projects	150,403	33,831
Money lending	5,888	4,513
Financing guarantee services	–	251
	156,291	38,595
Segment results		
Trading of aluminium products	–	(130)
Construction projects	11,271	2,846
Money lending	3,284	2,183
Financing guarantee services	–	14
	14,555	4,913
Interest income	26	7
Corporate and other unallocated income	2,796	23,994
Corporate and other unallocated expenses	(15,999)	(4,674)
Profit before tax	1,378	24,240

Information about major customer

Revenue from customers of the corresponding periods contributing over 10% of the total revenue are as follows:

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A ¹	93,151	20,929
Customer B ²	–	6,085
Customer C ³	–	4,479
Customer D ⁴	40,681	–
	133,832	31,493

^{1,2,3,4} Revenue from construction projects segment

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents (i) net invoiced value of goods sold, after allowances for returns and trade discounts; (ii) an appropriate proportion of contract revenue of construction contracts; (iii) loan interest income from money lending business; and (iv) net guarantee fee income from provision of financing guarantee services during the Period.

An analysis of revenue, other income and gains is as follows:

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue		
Trading of aluminium products	–	–
Construction projects	150,403	33,831
Loans interest income	5,888	4,513
Guarantee fee income	–	251
	156,291	38,595
Other income and gains		
Interest income	26	7
Net unrealised gain arising on revaluation of financial assets at fair value through profit or loss	–	13,632
Dividend income	1,770	211
Rental income	–	9
Gain on disposal of subsidiaries	–	10,141
Others	1,000	10
	2,796	24,010
Total revenue, other income and gains	159,087	62,605

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of construction	131,131	28,705
Depreciation of property, plant and equipment	2,606	25
Depreciation of investment property	–	19
Employee benefits expenses (including directors' remuneration):		
Wages and salaries	3,616	2,181
Pension scheme contributions	82	66
	3,698	2,247
Net unrealised loss/(gain) arising on revaluation of financial assets at fair value through profit or loss	10,879	(13,632)
Dividend income	(1,770)	(211)
Rental income	–	9
Gain on disposal of subsidiaries	–	(10,141)
Interest income	(26)	(7)

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the Period.

The People's Republic of China ("PRC") enterprise income tax is calculated at 25% (six months ended 30 September 2018: 25%) on the estimated assessable profits arising in the PRC during the Period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/ jurisdictions in which the Group operates.

	Six months ended	
	30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax — Hong Kong		
Charge for the Period	–	360
Current tax — PRC		
Charge for the Period	–	–
Current tax — Other		
Charge for the Period	194	–
Total tax charge for the Period	194	360

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the unaudited loss of approximately HK\$4,003,000 for the Period (six months ended 30 September 2018: profit of approximately HK\$22,476,000) attributable to ordinary equity holders of the Company and the weighted average number of 1,980,000,000 ordinary shares in issue during the Period (six months ended 30 September 2018: 1,980,000,000).

The calculation of diluted earnings per share amounts is based on the unaudited loss of approximately HK\$4,003,000 for the Period (six months ended 30 September 2018: profit of approximately HK\$22,476,000) attributable to ordinary equity holders of the Company and the weighted average number of 1,980,000,000 ordinary shares (six months ended 30 September 2018: 1,980,000,000) used in the basic earnings per share calculation, as adjusted for the share options assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the Period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options. Hence, the share options have a dilutive effect only when the average market price of ordinary shares exceeds the exercise price of the share options. During the Period, there is no dilutive event as the average market price of ordinary shares did not exceed its exercise price of the share options.

9. DIVIDENDS

The Board did not recommend the payment of any dividend for the Period (six months ended 30 September 2018: Nil).

10. TRADE RECEIVABLES

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Trade receivables	41,591	19,573
Less: Impairment	(4,788)	(4,788)
Net carrying amounts	<u>36,803</u>	<u>14,785</u>

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivables balances. Trade receivables are non-interest-bearing.

The Group allows a credit period normally 0 to 90 days to its trade customers. An aging analysis of the trade receivables as at the end of the reporting period, based on the date of invoice, is as follows:

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Within 1 month	5,637	7,095
1 to 2 months	1,675	1,072
2 to 3 months	10,776	–
Over 3 months	18,715	6,618
	<u>36,803</u>	<u>14,785</u>
Trade receivables	<u>36,803</u>	<u>14,785</u>

11. LOAN AND INTEREST RECEIVABLES

The loan receivables represented outstanding loans arose from the money lending business during the Period.

Loan receivables bear interest at fixed rates for the range from 5% to 16% per annum, and with credit periods, mutually agreed between the contracting parties. Loan receivables are secured by the pledge of debtors' assets. Overdue balances are reviewed regularly and handled closely by senior management.

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Loan receivables	127,000	151,000
Interest receivables	7,262	7,306
Less: Impairment	(5,553)	(5,553)
	<u>128,709</u>	<u>152,753</u>
Net carrying amounts	128,709	152,753
Less: Current portion of loan and interest receivables	(128,709)	(152,753)
	<u>–</u>	<u>–</u>
Non-current portion of loan and interest receivables	<u>–</u>	<u>–</u>

The loan and interest receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Receivables:		
Within 3 months	3,156	30,934
3 months to 1 year	40,631	638
Past due	84,922	121,181
	<u>128,709</u>	<u>152,753</u>
Less: Current portion of loan and interest receivables	<u>(128,709)</u>	<u>(152,753)</u>
Non-current portion of loan and interest receivables	<u>–</u>	<u>–</u>

Note: Included in loan receivables were:

- (i) HK\$20,000,000 (the “**Loan A**”) due from a borrower (“**Borrower A**”), an independent third party, which was secured by 20% equity interest in a secondary school in the PRC (the “**Underlying Securities**”) and was repayable on or before 5 November 2016. Upon maturity, the repayment of Loan A was defaulted. Subsequently, the Group commenced a legal proceeding against Borrower A since 5 April 2018. Further to a judgment (the “**Judgment**”) issued by 福建省泉州市中級人民法院 (the “**District Court**”) in July 2018, the District Court has made an order that Borrower A is required to perform his duty to repay the Loan A immediately and certain of his properties and properties owned by his spouse were frozen (the “**Frozen Properties**”) since then. Borrower A filed an appeal against the Judgment but the appeal had been dismissed by 福建省泉州市高級人民法院 in October 2018. In addition, a deed of guarantee was obtained from an independent third party for the recoverability of Loan A.

Based on the valuation of the Underlying Securities, the assessment of the recoverable amount of the Frozen Properties and a deed of guarantee obtained, the directors of the Company were of the opinion that the Loan A will be fully recoverable and therefore, no impairment was provided as at 30 September 2019.

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Prepayments	41,653	1,599
Trade deposits	1,556	1,556
Utility and other deposits	8,062	6,394
Other receivables	10,723	43,011
Deposits for the mining project	–	43,131
Promissory note receivables	15,000	20,000
	<u>76,994</u>	<u>115,691</u>
Less: Impairment		
Trade deposits	(1,556)	(1,556)
Other receivables	(2,987)	(2,897)
	<u>(4,543)</u>	<u>(4,453)</u>
Current portion of prepayments, deposits and other receivables	<u>72,451</u>	<u>111,238</u>

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Financial assets held for trading		
— Equity securities listed in Hong Kong, at market value	51,971	68,341
— Equity securities unlisted in Hong Kong, at market value	26,207	–
	<u>78,178</u>	<u>68,341</u>

The fair values of listed securities are based on their quoted closing prices in an active market.

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	At 30 September 2019 (Unaudited) HK\$'000	At 31 March 2019 (Audited) HK\$'000
Cash and bank balances	130,734	133,531
Time deposits	19,230	19,229
	<u>149,964</u>	<u>152,760</u>
Less pledged deposits	(7,541)	(7,541)
	<u>142,423</u>	<u>145,219</u>

BUSINESS REVIEW

For the six months ended 30 September 2019, the Group has been continuously executing the strategy of focusing on the construction market in Macau and Hong Kong. During the Period, as a result of the commencement of our construction projects in Macau, the revenue was increased to approximately HK\$156.3 million, represented approximately three fold of that for the same period in the last financial year. Of the total revenue of HK\$156.3 million, approximately HK\$150.4 million and HK\$5.9 million were from our construction business and money lending business, respectively.

With the commencement of construction projects in Macau, the construction project business of the Group recorded revenue of HK\$150.4 million for the six months ended 30 September 2019, which was more than four times of that during the same period last year. Segment result of the construction project business was approximately HK\$11.3 million (2018:HK\$2.8 million), represented a significant and healthy improvement to the Group's business operation as a whole.

Since the Group has been focusing on its construction project business, the revenue of the money lending business recorded a moderate increase to approximately HK\$5.9 million for the six months ended 30 September 2019 from approximately HK\$4.5 million for the same period of 2018. The segment result of the Group's money lending business was approximately HK\$3.3 million (2018: HK\$2.2 million), or a segment margin of approximately 55.9% in comparison to 48.9% for the same period last year.

ACQUISITION OF REMAINING MINORITY EQUITY INTEREST OF I TONG ENGINEERING COMPANY LIMITED

On 26 November 2019, the Company (through a wholly-owned subsidiary of the Company) entered into an agreement to purchase 48.16% equity interests of I Tong Engineering Company Limited ("**I Tong**"), which has been an indirect subsidiary of the Company for the Group's construction business in the Macau market. (Please refer to the announcement on 26 November 2019 for details.)

The management believes that the acquisition of the remaining equity interest of I Tong will enable the Company to obtain full control over the management, business and operations of I Tong and thereby provides greater flexibility to the Group in deploying its resources to develop I Tong's business and to expand its market presence in the construction business in the Macau market.

Upon completion of the acquisition, the financial results of the I Tong will be fully consolidated into the financial results of the Group, through which the Directors are of the view that the future profitability of the Group will be further enhanced and hence, the Group will have more sufficient operations and assets to justify the resumption of trading of the Company's shares on the Stock Exchange, which was suspended since 11 July 2019.

The management will continue its effort in executing the current strategy in focusing on the construction project business that is expected to further improve the Group's financial performance in the coming years.

PROSPECTS

The recent instability of the political and social environment in Hong Kong, and the uncertainties from the trade conflict between the US and China, restricted the economic growth and elevated the potential risk of conducting business in the Greater China region, including Hong Kong and Macau where the Group's businesses are. Nevertheless, the management sees the potential of the construction project business in Macau and expects to position the Group for further growth in the Macau market. The Group will ride on the current revenue generating construction projects and strengthen the Group's position in the Macau market, and on the other hand, continue the strategy to grow the construction project and money lending businesses in Hong Kong.

THE STOCK EXCHANGE'S DECISION ON THE COMPANY'S NON-COMPLIANCE WITH LISTING RULE 13.24

As a result of the Stock Exchange's decision on the Company's non-compliance with Listing Rule 13.24, the shares of the Company was suspended from trading on 11 July 2019.

The Company is required to demonstrate its compliance with Rule 13.24 of the Listing Rules in the Second Review and, if Listing (Review) Committee of the Stock Exchange uphold the Decision, the Company will have a remedial period of 18 months to re-comply with the Rule. If the Company fails to do so by the expiry of the 18-month period, the Stock Exchange will proceed with cancellation of the Company's listing.

The management of the Group believes the current strategy and potential growth will equip the Company to satisfy the requirement of the Listing Rules, but the shareholders of the Company and potential investors are reminded that the outcome of the Second Review is uncertain. Further announcement(s) will be made by the Company as and when appropriate and in accordance with the requirements of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 September 2019, the Group had cash and bank balances of approximately HK\$142.4 million (31 March 2019: HK\$145.2 million) while net assets was approximately HK\$444.1 million (31 March 2019: HK\$442.9 million). The Group's gearing ratio, being a ratio of total bank and other borrowings to shareholders' funds, was 6.7 times as at 30 September 2019 (31 March 2019: 10.5 times).

FOREIGN EXCHANGE EXPOSURE

The Directors are of the opinion that almost all of the transactions of the Group and recognised financial assets and liabilities are denominated either in HK\$ or RMB during the Period (six months ended 30 September 2018: No significant foreign currency risk as almost all of the transactions of the Group and recognised financial assets and liabilities are denominated in HK\$). The Group currently does not have a foreign currency hedging policy. However, the management will monitor the foreign exchange exposure should the need arises.

DIVIDEND

The Board did not recommend the payment of any dividend for the Period (six months ended 30 September 2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2019, the Group had 59 (31 March 2019: 20) employees. The Group's remuneration policy is reviewed periodically and determined by reference to market terms, the Group's performance, and individual qualifications and performance.

The emolument policy for the employees of the Group is set up by the Company's remuneration committee on the basis of their merit, qualifications and competence. Discretionary bonus and share options may be awarded to eligible employees with reference to individual performance and the Group's business performance. The emoluments of the directors are decided by the remuneration committee, having regard to the Group's operating results, individual performance and comparable market statistics

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Share Option Scheme**") was approved and adopted by the shareholders on 31 August 2015. The Share Option Scheme is valid and effective for a period of 10 years after the date of adoption. The purpose of the Share Option Scheme is to provide incentives to the employee or consultant of the Group including any executive director of any nationality of the Company and any subsidiary (the "**Participants**") to contribute to the Group and/or to enable the Group to recruit and/or retain high-calibre individuals and attract human resources that are valuable to the Group. Under the Share Option Scheme, the Board may grant options to the Participants to subscribe for shares of the Company. On 2 March 2016, the Group granted 131,299,998 share options (the "**Share Options**") to their directors and employees for a term of 5 years.

Details of specific categories and the outstanding Share Options during the Period are as follows:

	Date of grant	Exercise period	Outstanding as at 1 April 2019	Granted during the Period	Exercised during the Period	Lapsed/ Cancelled during the Period	Outstanding as at 30 September 2019	Exercise price HK\$
Directors								
Chan Yin Tsung	2 March 2016	2 March 2016 to 1 March 2021	4,166,666	–	–	–	4,166,666	1.20
Li Kam Chung	2 March 2016	2 March 2016 to 1 March 2021	4,166,666	–	–	–	4,166,666	1.20
Kwok Lap Fung Beeson	2 March 2016	2 March 2016 to 1 March 2021	4,166,666	–	–	–	4,166,666	1.20
Employees								
	2 March 2016	2 March 2016 to 1 March 2021	39,600,000	–	–	–	39,600,000	1.20
			<u>52,099,998</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>52,099,998</u>	

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standards set out in the Model Code throughout the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Board, the Company was in compliance with all the Corporate Governance Code as stipulated in Appendix 14 of the Listing Rules throughout the Period except for the following deviations as explained:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not at present have any office with the title “chief executive officer”. The Board is of the view that currently vesting the roles of chairman and chief executive officer in Mr. Fung Kwok Kit provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies.

AUDIT COMMITTEE REVIEW

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Wong Wing Cheung, Mr. Li Kam Chung and Mr. Kwok Lap Fung, Beeson, with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are (i) to review, in draft form, the Company's annual report and accounts, and half-yearly report and providing advice and comments thereon to the Board; and (ii) to review and supervise the Company's financial reporting, risk management and internal control procedures. Mr. Wong Wing Cheung is the chairman of the audit committee.

The audit committee had reviewed the unaudited condensed consolidated financial statements of the Group for the Period, including the accounting principles and practices adopted by the Group and the adequacy of internal control system. The committee is satisfied with the review and the Board is also satisfied with the committee's report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

By order of the Board
Zhidao International (Holdings) Limited
Fung Kwok Kit
Chairman

Hong Kong, 29 November 2019

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Fung Kwok Kit (Chairman) Mr. Zhong Can and Mr. Kwong Kin Fai, Eric, and three independent non-executive Directors, namely Mr. Wong Wing Cheung, Mr. Li Kam Chung and Mr. Kwok Lap Fung, Beeson.