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ZHONGTIAN INTERNATIONAL LIMITED

中天國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 02379)

2021 INTERIM RESULTS ANNOUNCEMENT

UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board (the “Board”) of directors (the “Directors”, each a “Director”) of Zhongtian International Limited (the “Company”, together with its subsidiaries, collectively known as the “Group”) is pleased to present the Group’s unaudited consolidated results for the six months ended 30 June 2021 (the “Reporting Period”), together with the comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Unaudited	
		Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
Revenue	2	52,140	19,062
Loss on disposal of properties	8(b)	(152,620)	—
Other revenue, income and other net gains	3	17,640	20,780
Change in fair value of investment properties	8(a)	—	(2,170)
Reversal of impairment on trade receivables	12	19,692	—
Provision of impairment of properties held for sale	8(b)	(25,635)	—
Administrative expenses		(3,339)	(5,806)
Finance costs		(25,977)	(24,953)
		<hr/>	<hr/>
Profit before taxation	4	(118,099)	6,913
Income tax (credits)/expenses	5	34,408	(491)
		<hr/>	<hr/>
(Loss)/profit for the period		(83,691)	6,422
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
Equity holders of the Company		(83,691)	6,422
		<hr/>	<hr/>
Other comprehensive loss			
for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of financial statements of foreign operations			(313)
		<hr/>	<hr/>
Total comprehensive income for the period			
<i>Attributable to owners of the Company</i>		(83,691)	6,109
		<hr/> <hr/>	<hr/> <hr/>
(Loss)/earnings per share			
(expressed in RMB cents)			
Basic and diluted	7	(20.0)	1.6
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
NON-CURRENT ASSETS			
Investment properties	8(a)	38,800	38,800
Property, plant and equipment		358	492
Loan and other receivables	9	—	309,000
		39,158	348,292
CURRENT ASSETS			
Properties held for sale		116,370	288,300
Land under development into properties for sale	8(b)	149,246	148,673
Loan and other receivables	9	528,640	234,225
Prepayment for construction costs	11	153,960	149,450
Trade and other receivables and prepayments	12	857	896
Cash and cash equivalents		710	5,588
		949,783	827,132
CURRENT LIABILITIES			
Trade and other payables	13	99,507	113,546
Amount due to a former director		825	825
Amount due to the ultimate controlling party of the Company		26,591	26,456
Tax payable		58,066	14,528
Bank and other borrowings	14	687,482	773,000
		872,471	928,355
NET CURRENT ASSETS/ (LIABILITIES)		77,312	(101,223)
TOTAL ASSETS LESS CURRENT LIABILITIES		116,470	247,069

	Notes	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
NON-CURRENT LIABILITIES			
Bank and other borrowings	14	—	12,500
Deferred tax liabilities		30,429	64,837
		30,429	77,337
NET ASSETS		86,041	169,732
CAPITAL AND RESERVES			
Share capital	15	3,667	3,667
Reserves		82,374	166,065
TOTAL EQUITY		86,041	169,732
TOTAL ASSETS		988,941	1,175,424

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the unaudited interim condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2020.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)(which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) and amendments to HKFRSs issued by the HKICPA for the first time for the current period’s unaudited interim condensed consolidated financial statements:

Amendments to HKFRS 9, HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16
Amendments to HKFRS 16

Interest Rate Benchmark Reform —
Phase 2
COVID-19-Related Rent Concessions

The adoption of these amendments to HKFRSs has had no significant financial effect on the financial position or performance of the Group.

2. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from sale of properties	42,220	—
Rental income from properties	5,675	15,332
Revenue from provision of financial services	4,245	3,730
	<u>52,140</u>	<u>19,062</u>

(b) Segments information

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

- Property segment: this segment includes property development, investment and leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently, all of the Group's investment properties are located in the PRC.
- Financial service segment: provision of services in connection with financing and procurement arrangements in the PRC, details of which are disclosed in Note 9.
- Renovation service segment: provision of services in connection with arranging renovation projects in PRC.

(i) **Segment results, assets and liabilities**

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the period is set out below:

For the six months ended 30 June	Property		Financial service		Renovation service		Total	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Reportable segment revenue from external customers	47,895	15,332	4,245	3,730	—	—	52,140	19,062
Reportable segment results	(118,719)	3,628	756	4,405	—	—	(117,963)	8,033
	30 June 2021 (unaudited) RMB'000	30 June 2020 (unaudited) RMB'000	30 June 2021 (unaudited) RMB'000	30 June 2020 (unaudited) RMB'000	30 June 2021 (unaudited) RMB'000	30 June 2020 (unaudited) RMB'000	30 June 2021 (unaudited) RMB'000	30 June 2020 (unaudited) RMB'000
Reportable segment assets	455,063	884,222	528,640	631,736	—	8,379	983,703	1,524,337
Reportable segment liabilities	(221,398)	(487,354)	(651,400)	(604,814)	—	(4,744)	(872,798)	(1,096,912)

(ii) **Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:**

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit or loss		
Reportable segment results	(117,963)	8,033
Unallocated other operating income	—	1
Unallocated other corporate expenses	(136)	(1,121)
Consolidated profit before taxation	(118,099)	6,913

(c) **Geographical segments**

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

3. OTHER REVENUE, INCOME AND OTHER NET GAINS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest income from loan receivable (Note)	16,448	20,102
Interest income from bank deposits	—	1
Imputed interest on income receivable from provision of financial services	—	676
	<hr/>	<hr/>
Interest income on financial assets measured at amortised cost	16,448	20,779
	<hr/>	<hr/>
Income from compensation for damaged properties	1,178	—
Sundry income	14	1
	<hr/>	<hr/>
	17,640	20,780
	<hr/> <hr/>	<hr/> <hr/>

Note: The interest income is the same as the interest payable on the back-to-back loan arrangement, as further detailed in Note 9.

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging the following:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance cost (Note)	25,977	24,953
Depreciation of property, plant and equipment	133	133
	<hr/> <hr/>	<hr/> <hr/>

Note: Included in the interest of bank and other borrowing was RMB19,936,000 (six months ended 30 June 2020: RMB20,102,000) accrued on the back-to-back loan arrangement as further disclosed in Note 9.

5. INCOME TAX (EXPENSES)/CREDITS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax		
— provision for current period	—	(1,890)
Deferred taxation:		
— origination and reversal of temporary differences	34,408	1,399
	<u>34,408</u>	<u>1,399</u>
	<u>34,408</u>	<u>(491)</u>

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (six months ended 30 June 2020: 25%).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

No provision for Hong Kong Profits Tax has been made for the periods ended 30 June 2021 and 2020, as the Group did not have assessable profits subject to Hong Kong Profits Tax during the two periods.

The reversal of deferred tax was due to the disposal of certain properties during the six months ended 30 June 2021.

6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the Reporting Period (six months ended 30 June 2020: Nil).

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share of the Company is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2021 of approximately RMB83,691,000 (six months ended 30 June 2020: profit of approximately RMB6,422,000) and weighted average number of Shares issued as at 30 June 2021 of 410,209,122 (30 June 2020: 410,209,122).

There were no dilutive potential Shares during the six months ended 30 June 2021 and 30 June 2020, and diluted earnings per share is the same as basic earnings per share.

8. INVESTMENT PROPERTIES/PROPERTIES HELD FOR SALE

a) Investment properties

	Completed properties RMB'000
At 1 January 2021 (Audited)	38,800
Loss from fair value change	—
	<hr/>
At 30 June 2021 (Unaudited)	<u>38,800</u>

The investment properties are situated in Qingdao, the PRC and held under a medium term lease. All the investment properties of the Group are held for rental purposes and/or capital appreciation in future.

All of the Group's investment properties were valued on 31 December 2020 by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions. As at 30 June 2021, the management of the Company considered that there was no significant change in fair value of the investment properties. The completed properties are currently leased to third parties under operating leases.

The change in fair value with a loss of RMB Nil (2020: RMB2,170,000) was recognised in profit or loss for the period ended 30 June 2021. The investment properties have pledged to banks for bank and other borrowings of the Group, as further detailed in Note 14.

b) Properties held for sale

At 1 January 2021 (Audited)	288,300
Capital expenses	6,325
Disposal of properties (note (i))	(152,620)
Provision for impairment (note (ii))	(25,635)
	<hr/>
At 30 June 2021 (Unaudited)	116,370
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Notes:

- i) Affected by the COVID-19 pandemic and the government's regulation and control on real estate, the property market price in Qingdao continued to fall, the turnover in the commercial office market remained sluggish, and the vacancy rate of related properties continued to rise. Also, constrained by the tight cash flow of the Company, during the six months ended 30 June 2021, the Group reduced its holdings of certain properties for sale by adopting a public sale to alleviate its difficulty in capital shortage. The sales amount of the related properties was approximately RMB44,331,000.
- ii) The properties held for sale are situated in Qingdao, the PRC and held under a medium term lease.

All of the Group's properties held for sale were valued on 30 June 2021 by Cushman & Wakefield Shenzhen Valuation Co., Ltd. (深圳市戴德梁行土地房地產評估有限公司), being an independent firm of valuers, who has amongst its staff, fellow members of chartered surveyors with qualification and recent experience in the location and category of similar properties being valued. The fair values of completed properties were arrived at by considering the capitalised income to be derived from the existing tenancies and the reversionary potential of the properties, where appropriate, by reference to market evidence of transaction prices for the similar properties in the same locations and conditions.

An impairment loss of RMB25,635,000 (as of 30 June 2020: Nil) was recognised in profit or loss for the period ended 30 June 2021. The properties held for sale have pledged to banks for bank and other borrowings of the Group, as further detailed in Note 14.

9. LOAN AND OTHER RECEIVABLES

	<u>Loan and other receivables</u>				
	Loan receivable (current) RMB'000	Loan receivable (non- current) RMB'000	Income receivable from provision of financial services RMB'000	Loan interest receivables RMB'000	Total (note(a)) RMB'000
30 June 2021					
Gross amount	600,000	—	34,780	23,860	658,640
Allowance for expected credit losses	(105,000)	—	(15,000)	(10,000)	(130,000)
	<u>495,000</u>	<u>—</u>	<u>19,780</u>	<u>13,860</u>	<u>528,640</u>
Represented by:					
Current portion	<u>495,000</u>	<u>—</u>	<u>19,780</u>	<u>13,860</u>	<u>528,640</u>
	<u>495,000</u>	<u>—</u>	<u>19,780</u>	<u>13,860</u>	<u>528,640</u>
31 December 2020					
Gross amount (note (a))	240,000	360,000	30,280	42,945	673,225
Allowance for expected credit losses	(54,000)	(51,000)	(10,000)	(15,000)	(130,000)
	<u>186,000</u>	<u>309,000</u>	<u>20,280</u>	<u>27,945</u>	<u>543,225</u>
Represented by:					
Current portion	<u>186,000</u>	<u>—</u>	<u>20,280</u>	<u>27,945</u>	<u>234,225</u>
Non-current portion	<u>—</u>	<u>309,000</u>	<u>—</u>	<u>—</u>	<u>309,000</u>
	<u>186,000</u>	<u>309,000</u>	<u>20,280</u>	<u>27,945</u>	<u>543,225</u>

On 17 July 2017, Qingdao Zhongtian Enterprises Development Co., Ltd (“Qingdao Zhongtian”), an indirect wholly-owned subsidiary of the Company, entered into a construction and procurement agreement (the “Construction and Procurement Agreement”) with a third party natural gas operator (the “Gas Operator”) which holds a concession right for the construction of natural gas pipeline networks and for distribution of natural gas in the designated areas in Qingdao (the “Natural Gas Project”), the PRC, and another third party supplier of materials and equipment (the “Supplier”) for construction of the Natural Gas Project, for a term of 10 years. In accordance with the commercial substance of the arrangements under the Construction and Procurement Agreement, as clarified by a supplemental agreement dated 26 March 2018 (“Supplemental Agreement”) made between Qingdao Zhongtian and the Gas Operator, during the year ended 31 December 2017, Qingdao Zhongtian provided the financial services to the Gas Operator and obtained a loan of RMB600,000,000 (the “Project Loan”) from an independent third party trust scheme (Note 14), which was then transferred, at the instructions of the Gas Operator, to the Supplier as advanced payments made by the Gas Operator for the purchase costs of materials and equipment acquired and/or to be acquired from the Supplier, in connection with the construction of the Natural Gas Project of the Gas Operator. The Project Loan was obtained by Qingdao Zhongtian from the trust scheme on a back-to-back basis for the Gas Operator. Out of the proceeds of the Project Loan of RMB600,000,000 obtained from the trust scheme, The Gas Operator (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000, representing 20% of the Project Loan, to the trust scheme. The Gas Operator has provided an unlimited corporate guarantee in favour of the trust scheme for the repayments of the principals of the entire Project Loan and the interest accruing at the applicable effective rate of 6.49% per annum on the Project Loan, which shall be the obligations of the Gas operator for repaying to the trust scheme. The Gas Operator shall repay Qingdao Zhongtian for the entire Project Loan, at each instalment of RMB120,000,000, RMB120,000,000 and RMB360,000,000 on 1 November 2020, 31 May 2021 and 31 May 2022, respectively. The interests accrued thereon shall be repaid on a quarterly basis. The principals of Project Loan receivable from the Gas Operator, together with the interest accrued thereon and service charge as detailed below, are secured by the collateral of the business and its relevant assets of the Natural Gas Project of the Gas Operator, based on a pledge agreement entered into between the Gas Operator and Qingdao Zhongtian on 18 June 2018.

In consideration of the services rendered by Qingdao Zhongtian, the Gas Operator shall pay Qingdao Zhongtian a fee, as financial service income, which is recognised on a daily basis at RMB24,658 (inclusive of value-added tax) per day and straight-line basis over the contract term period of 10 years. During the period ended 30 June 2021, financial service income of RMB4,500,000 (for the six months ended 30 June 2020: RMB4,488,000), net of value-added tax of RMB255,000 (for the six months ended 30 June 2020: RMB619,000) and discounting effect of RMB Nil (for the six months ended 30 June 2020: RMB139,000), amounting to RMB4,245,000 (for the six months ended 30 June 2020: RMB3,730,000) was recognised and credited to the profit or loss for the year.

At the end of the Reporting Period, the Group assessed recoverability of the loan and interest receivables, together with the service income receivable, totalled approximately RMB658,640,000 (2020: RMB673,255,000), taking into account current conditions and factors specific to the Gas Operator and forward looking information such as the forecast of future economic environment and government policies, the recoverable amount of the business and its relevant assets of the Gas Operator pledged in favour of the Group, based on a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets.

At 31 December 2020, the credit risk of the receivables from the Gas Operator was deemed to have increased significantly since the Gas Operator failed to repay the scheduled first instalment of RMB120,000,000 on time during the year. Therefore, the Company has made a provision for lifetime ECLs for all related debts at 31 December 2020.

The Group assessed the recoverability of the loan and interest receivables, together with the service income receivable, totalled approximately RMB673,225,000, taking into account forward-looking information available like forecast of economic conditions, current conditions at the end of the Reporting Period and other factors specific to the Gas Operator and the financial abilities of the Gas Operator based on its latest unaudited management accounts at 31 December 2020 made available to the Group, and the fair value less cost of disposal of the business and its relevant assets of the Gas Operator, being collaterals as an identified cash-generating unit, by reference to a valuation performed by CHFT Advisory And Appraisal Limited, an independent professional valuer with qualifications and experiences in valuing similar assets.

As at 30 June 2021, the management of the Company considered that the above provision for ECLs was sufficient to reflect the recoverability of the loan and interest receivables together with the service income receivable, and therefore the Group did not recognise an additional provision for ECLs for the six months ended 30 June 2021.

10. LAND UNDER DEVELOPMENT INTO PROPERTIES FOR SALE

Land under development into properties for sale represents land previously classified as investment properties, which was reclassified as land under development into properties for sale since 20 May 2019 as the Group has changed its overall business plan for developing the land into residential and commercial properties intended for sale within its normal operating cycle, plus any additional costs incurred for the development of the land.

11. PREPAYMENT FOR CONSTRUCTION COST

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Prepayment for construction cost (note)	153,960	149,450

Note: During the year ended 31 December 2019, the Group entered into a new construction contract with a main contractor, which is an independent third party, for the construction of the land (Note 10) into residential units and commercial properties intended for sale. In accordance with the terms of the construction contract, as of 30 June 2021, the Group made prepayments of approximately RMB153,960,000 to the main contractor.

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
0–30 days	—	37
31–60 days	—	37
61–90 days	—	37
91–180 days	—	148
181–365 days	37	—
Over 365 days	—	—
	<hr/>	<hr/>
Trade debtors and bills receivable, net of allowance	37	259
Other receivables	659	510
	<hr/>	<hr/>
Prepayments and deposits	161	124
	<hr/>	<hr/>
	857	896
	<hr/> <hr/>	<hr/> <hr/>

All of the trade and other receivables and prepayments are expected to be received or recognised as expense within one year.

During the period ended 30 June 2021, the Group recovered approximately RMB19,692,000 from customers relating to receivables for which a full provision had been made, and such amount was recognised as revenue during the period.

13. TRADE AND OTHER PAYABLES

Trade and other payables of RMB99,507,000 (31 December 2020: RMB113,546,000) include trade payables of RMB6,576,000 (31 December 2020: RMB3,884,000).

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
0–180 days	4,096	—
181–365 days	—	—
Over 365 days	2,480	3,884
	<u>6,576</u>	<u>3,884</u>

14. BANK AND OTHER BORROWINGS

As at 30 June 2021, the Group had bank and other borrowings as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Secured bank borrowings	287,482	185,500
Secured borrowing from a trust scheme	600,000	600,000
	<u>687,482</u>	<u>785,500</u>

As at 30 June 2021, interest-bearing bank and other borrowings due for repayment were as follows:

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Carrying amounts repayable:		
Within 1 year	650,000	773,000
After 1 year but within 2 years	37,482	12,500
After 2 years but within 5 years		
After 5 years		
	687,482	785,500
Less: Current portion	(687,482)	(773,000)
Non-current portion	—	12,500

As at 30 June 2021, bank and other borrowings were interest bearing at 5.88% to 8.00% (2020:5.88% to 8.00%) per annum.

Bank borrowings of RMB10,000,000 (2020: RMB10,000,000) were secured by certain investment properties of the Group (Note 8). Bank borrowings of RMB77,482,000 (2020: RMB175,500,000) were secured by certain properties held for sale of the Group (Note 8) and guaranteed by Mr. Chen Jun, the director and ultimate controlling party of the Company.

Borrowings amounting to RMB600,000,000 (2020: RMB600,000,000) payable to the trust scheme have been secured by land under development into properties for sale of the Group (note 10) and personal guarantees provided by Mr. Chen Jun, a controlling shareholder and director of the Company, and his spouse. As part of the arrangements for the other borrowing of RMB600,000,000 obtained from the trust scheme to which Ruiding (as one of the beneficiaries of the trust scheme) contributed RMB120,000,000 which is subordinated to the remaining scheme fund of RMB480,000,000 contributed by the other independent third party beneficiary of the trust scheme, Ruiding has also provided an unlimited guarantee in favour of the trust scheme for the repayments of the borrowing of RMB600,000,000 (2020: RMB600,000,000) and the interests thereon at the effective applicable rate of 6.49% per annum, payable by Qingdao Zhongtian. The principals of the Project Loan from the trust scheme will be repaid by Qingdao Zhongtian by the following instalments:

- RMB120,000,000 on 1 December 2020;
- RMB120,000,000 on 28 June 2021; and
- RMB360,000,000 on 28 June 2022 which shall be repaid by the Gas Operator to Qingdao Zhongtian as referred to Note 9.

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

15. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2021 (Unaudited) '000	30 June 2020 (Unaudited) '000	30 June 2021 (Unaudited) '000	30 June 2020 (Unaudited) '000
Authorised:				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>10,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:				
As at 1 January 2021/2020 and 30 June 2021/31 December 2020	<u>410,209</u>	<u>410,209</u>	<u>3,667</u>	<u>3,667</u>

16. COMMITMENTS

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Contracted but not provided for (<i>note</i>)	<u>40,390</u>	<u>40,390</u>

Note: As at 30 June 2021, contracted but not provided for capital commitments included amounts of RMB28,253,000 and RMB12,137,000 relating to the land under development for properties for sale and properties held for sale respectively.

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the Board on 30 September 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

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

Financial Service

On 17 July 2017, Qingdao Zhongtian Enterprise Development Co., Ltd. (“Qingdao Zhongtian”), an indirect whollyowned subsidiary of the Company, entered into a construction and procurement agreement with the Gas Operator and the Supplier. Pursuant to the aforesaid agreement, as clarified by a supplemental agreement between Qingdao Zhongtian and the Gas Operator on 26 March 2018, Qingdao Zhongtian was appointed by the Gas Operator to provide financing services, for a period of 10 years, and to obtain a loan facility of RMB600,000,000 from a designated trust scheme for the purpose of financing the purchase consideration of materials and equipments, to be supplied by the Supplier, for construction of the Natural Gas Project of the Gas Operator located in Qingdao, the PRC. Under the aforesaid agreements, the Gas Operator (as a third party to the aforesaid agreements) shall bear all the obligations for the repayment of the loan principal, together with the interests accruing thereon, through Qingdao Zhongtian, to the trust scheme on 31 May 2020, 31 May 2021 and 31 May 2022, with each principal payment repaid being RMB120,000,000, RMB120,000,000 and RMB360,000,000, respectively, and the interests accrued on a quarterly basis. Due to the impacts and economic uncertainties caused by COVID-19 pandemic, which broke out in January 2020, the Gas Operator was unable to make first instalment of loan principal repayments relating to loan borrowed from the trust scheme with carrying amount of RMB120 million during the year, which the trustee shall be entitled to request for the immediate repayment of full amounts owed. The credit risks of the amounts receivable from the Gas Operator have increased significantly due to default in repayment to the Group, provision of lifetime expected credit losses of RMB130,000,000 has been provided during the Year. This business segment is expected to contribute a stable long-term revenue to the Group.

Property

As at 30 June 2021, the details of the investment properties and land under development into properties for sale of the Group are as follows:

(a) *Investment Properties and Properties held for Sale*

All the commercial and office units in the composite building located at Laoshan District, Qingdao City, the PRC, were leased out under a lease agreement dated 18 May 2019, for the period between 1 June 2019 and 31 May 2021. New tenancy agreements were signed with 2 tenants with an initial period of 2 and 20 years, respectively.

Affected by the COVID-19 pandemic and the government's regulation and control on real estate, the property market price in Qingdao continued to fall, the turnover in the commercial office market remained sluggish, and the vacancy rate of related properties continued to rise. During the Reporting Period, the Group has disposed part of the properties held for sale by adopting a public sale to meet its capital needs.

Most of the units in the storey in a commercial building located at the Shinan District, Qingdao City, the PRC have been leased out. Lease agreements have been entered into with the tenants by the Group with an initial period ranging from 2 to 20 years.

(b) Land under Development

The land of the Group which is under development is situated within the Chengyang District in Qingdao City, the PRC (the “Land”). On 20 May 2019, the People’s Government of Qingdao City (High-tech Zone) officially approved the entering into of the Agreement on Recovering the Land Use Right of State-owned Construction Land (Qing Gao Tu Chu Shou Zi [2019] No. 8) between Qingdao Municipal State-owned Land Resources and Housing Management Bureau (High-tech Zone) and the Group for the purpose of recovering the land use right of 36,311 square meters state-owned construction land in the land parcel of 91,165 square meters located at No. 877 Huihai Road held by the Group into reserve. The land expropriating compensation in aggregate amounted to RMB136,777,000 was paid by the Committee of Hetao Sub-district Office on Land Requisition and Reconstruction for supporting projects at the area adjacent to the Hongdao Station (河套街道辦事處紅島站周邊配套工程徵地拆遷建設工作指揮部) (the “Committee”) during the last year ended 31 December 2019. The remaining land use right of the state-owned construction land of 54,854 square meters still belongs to the Group.

Currently, the real estate development project will be continuing to be developed. Pursuant to the regulatory detailed planning, the use of the Land has been changed from commercial land to commercial and residential mixed land. As disclosed in the announcement of the Company dated 29 March 2021, Chengyang Planning Branch of Qingdao Natural Resources and Planning Bureau (青島市自然資源和規劃局城陽規劃分局) has approved our construction plan on the Project and published the same for public consultation during the period from 13 March 2021 to 19 March 2021. It is expected that the planning permit will be granted to the Group during year 2021. The Company is still in the process of applying for the construction permit which are expected to be granted at the same date.

Renovation Service

There is no revenue from renovation services for the reporting period as the clients decided to postpone their renovation projects due to COVID-19 outbreak since January 2020. The Company plans to carry on more intellectual upgrade renovation services to hotels and commercial buildings in the near future.

FINANCIAL REVIEW

Turnover

The Group's total turnover for the Reporting Period was approximately RMB52,140,000, representing an increase of approximately 174% from approximately RMB19,062,000 for the corresponding period in 2020. This was mainly attributable to the increase in rental income from the property segment from new rental agreements.

Other Revenue, Income and Other Net Gains

The Group's other revenue, income and other net gains for the Reporting Period were approximately RMB17,640,000 (corresponding period ended 30 June 2020: RMB20,780,000), representing a decrease of approximately 15% as compared to the corresponding period in 2020. This was mainly attributable to the decrease in interest income from loan receivable generated from the financial service segment.

Administrative Expenses

The Group's administrative expenses for the Reporting Period were approximately RMB3,339,000 (corresponding period ended 30 June 2020: approximately RMB5,806,000), representing an decrease of approximately 42% over the corresponding period ended 30 June 2020. This was mainly attributable to the decrease in other tax expenses in the Reporting Period.

Net Profit

During the Reporting Period, the Group recorded a net loss of approximately RMB83,691,000 representing a turnaround from the net profit of approximately RMB6,422,000 for the corresponding period ended 30 June 2020. The net loss was mainly attributable to the loss in disposal of properties and impairment loss in fair value of the investment properties for the Reporting Period.

BUSINESS REVIEW

Analysis by Business Segment

During the Reporting Period, the Group's principal source of income was derived from the property segment, which accounted for approximately 91.9% of the total turnover of the Group and the financial service segment contributed the remaining 8.1%. During the Reporting Period, all of the Group's income was derived from the Shandong Province, the PRC, which had accounted for 100% of the Group's total turnover.

FUTURE OUTLOOK

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

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

After the outbreak of the COVID-19, China has adopted a series of prevention and control measures, including the regional traffic control and delayed resumption of factory production, etc. This has undoubtedly led to temporary negative impact to the economic activities. Given the resilience and potentials of China's economy in the long run, it is believed that long-term stable growth would remain unchanged.

DEBTS

As at 30 June 2021, the Group had secured bank and other borrowings of approximately RMB687,482,000 (31 December 2020: approximately RMB785,500,000).

Save as disclosed above, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease and mortgages.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirement represents mainly working capital in relation to the costs of business expansion and property investment. The Group principally finances its operation and investment from operating income, internal resources and bank borrowings.

As at 30 June 2021, the Group had cash and bank balances of approximately RMB710,000 (31 December 2020: approximately RMB5,588,000) all of which was held in Renminbi. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was approximately 799.0% (31 December 2020: approximately 462.8%).

During the Reporting Period, the Group did not employ any material financial instrument for hedging purposes.

FOREIGN EXCHANGE

Since the Group mainly operates in the PRC, most of the revenue and transactions arising from its operations were settled in Renminbi and the Group's assets and liabilities are primarily denominated in Renminbi, the Directors believed that the Group would have sufficient foreign exchange measures to meet its foreign exchange requirements. The Group had not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and had not adopted any currency hedging policy or other hedging instruments during the Reporting Period.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies by the Group during the Reporting Period.

CHARGE ON ASSET AND CONTINGENT LIABILITIES

As at 30 June 2021, the investment properties and properties held for sale with fair value of approximately RMB155,170,000 (31 December 2020: RMB327,100,000) and land under development into properties for sale of approximately RMB149,246,000 (31 December 2020: RMB148,673,000) were pledged for bank and other borrowings of the Group.

Save as disclosed above, the Group had no other material charge on assets and contingent liabilities as at 30 June 2021.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had 26 employees (31 December 2020: 25 employees). Most of the Group's employees are based in the head office of the Group in the Qingdao City of the Shandong Province in the PRC.

The remuneration policy and package of the Group's employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the Reporting Period was approximately RMB1,503,000 (six months ended 30 June 2020: approximately RMB1,288,000).

EVENTS AFTER THE REPORTING PERIOD

Except for as disclosed in Note 17 to the unaudited condensed consolidated interim financial statements, there was no material subsequent event of the Group after the Reporting Period and up to the date of the report.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

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

INTERIM DIVIDEND

The Directors did not recommend payment of any interim dividend for the Reporting Period (six months ended 30 June 2020: Nil).

CORPORATE GOVERNANCE

The corporate governance practices of the Group are based on the principles and the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules. The Company has complied with all the code provisions as set out in the Code during the Period except for the following deviations:

Code Provision A.6.7 of the Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings. Further, it provides that the chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent shareholders' approval. In addition, the chairman of the Board should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting.

Ms. Chen Chak Kwan, Mr. Cui Haitao and Mr. Liu Jin Lu, each being an independent non-executive Director were unable to attend the annual general meeting of the Company held on 31 May 2021, respectively, due to other business commitments or unexpected engagements. Mr. Chen Jun, (an executive Director) took the chair at the aforesaid annual general meeting and he was of sufficient calibre and knowledge for answering questions at the annual general meeting.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. From 20 December 2019, Mr. Chen Jun had been the Chairman and Chief Executive Officer of the Company. He provided leadership to the Board and is responsible for the management of the Group's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. The Board believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high-calibre individuals, with three of them being independent non-executive Directors.

The Board will continue to monitor and review the Company's corporate governance practices to ensure compliance with the Code.

AUDIT COMMITTEE

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

CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the Reporting Period.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Company (<http://www.irasia.com/listco/hk/zhongtian>) and the Stock Exchange (www.hkexnews.hk). The 2021 interim report will be despatched to the shareholders of the Company and published on the above websites in due course.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been halted with effect from 9:00 a.m. on 23 August 2021, pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 4 October 2021.

By Order of the Board
Zhongtian International Limited
Chen Jun
Chairman

Qingdao City, Shandong Province, the PRC,
30 September 2021

* *for identification purposes only*