ZH INTERNATIONAL HOLDINGS LIMITED

正恒國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 185)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the "Board") of directors (the "Directors") of ZH International Holdings Limited (the "Company"), is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017, which have been reviewed by the Company's audit committee (the "Audit Committee").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Unaudited Six months ended 30 June	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**394,323**	37,977
Cost of sales and services provided		**(225,718)**	(6,741)
Gross profit		**168,605**	31,236
Other income		**1,378**	267
Other gains and losses	*5*	**11,374**	1,712
Administrative expenses		**(60,025)**	(32,657)
Sales and marketing expenses		**(40,791)**	(5,773)
Finance costs	*6*	**(7,946)**	(4,332)
Profit (loss) before taxation	*7*	**72,595**	(9,547)
Income tax expenses	*8*	**(37,597)**	(129)
Profit (loss) for the period		**34,998**	(9,676)

	Notes	Unaudited Six months ended 30 June **2018** ***HK$'000***	 2017 *HK$'000*
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**(55,568)**	30,859
Total comprehensive (expense) income for the period		**(20,570)**	21,183
Profit (loss) for the period attributable to:			
Owners of the Company		**34,750**	(9,502)
Non-controlling interests		**248**	(174)
		34,998	(9,676)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(21,055)**	20,892
Non-controlling interests		**485**	291
		(20,570)	21,183
Earnings (loss) per share (HK cent)			
Basic	*10*	**0.56**	(0.15)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	Notes	**Unaudited 30 June 2018 HK$'000**	Audited 31 December 2017 HK$'000
Non-current assets			
Property, plant and equipment	*11*	**25,496**	23,810
Investment properties	*11*	**784,077**	795,464
Pledged deposits		**36,471**	63,379
		846,044	882,653
Current assets			
Inventories		**196**	286
Properties held for sale		**1,265,941**	1,500,042
Properties under development for sale and other contract costs		**28,082,612**	14,455,301
Deposits paid for land acquisitions		**736,731**	3,766,461
Contract assets, accounts receivable, deposits and prepayments	*12*	**822,899**	239,410
Financial assets at fair value through profit or loss		**188,393**	175,242
Tax recoverable		**481,986**	173,909
Pledged deposits		**452,242**	55,795
Restricted bank balances		**93,628**	194,387
Bank balances and cash		**671,139**	823,539
		32,795,767	21,384,372
Investment properties classified as held for sale		**4,104**	2,833
		32,799,871	21,387,205
Current liabilities			
Accounts payable, deposits received and accruals	*13*	**519,174**	2,225,563
Contract liabilities		**7,312,363**	3,147,923
Amounts due to related companies	*14*	**231,938**	2,878,297
Loans from a related company	*15*	**15,616,052**	3,197,920
Bank and other borrowings – due within one year		**4,207,941**	4,637,626
Tax liabilities		**100,780**	146,583
		27,988,248	16,233,912
Net current assets		**4,811,623**	5,153,293
Total assets less current liabilities		**5,657,667**	6,035,946

	Notes	**Unaudited 30 June 2018** *HK$'000*	Audited 31 December 2017 *HK$'000*
Capital and reserves			
Share capital	*16*	**716,706**	716,706
Reserves		**641,839**	662,894
Total equity attributable to owners of the Company		**1,358,545**	1,379,600
Non-controlling interests		**(5,297)**	(5,782)
Total equity		**1,353,248**	1,373,818
Non-current liabilities			
Rental deposits received		**6,715**	6,711
Bank and other borrowings – due after one year		**4,290,093**	4,646,849
Deferred tax liabilities		**7,611**	8,568
		4,304,419	4,662,128
Total equity and non-current liabilities		**5,657,667**	6,035,946

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. GENERAL

ZH International Holdings Limited (the "Company") is a public limited liability company incorporated and domiciled in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") include property development, property investment and management, hotel operations and securities trading and investment in Hong Kong, People's Republic of China (the "PRC") and overseas.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$").

The condensed consolidated financial statements for the six months ended 30 June 2018 were approved for issue by the Board on 29 August 2018. The condensed consolidated financial statements are unaudited, but have been reviewed by the Company's Audit Committee.

The financial information relating to the year ended 31 December 2017 that is included in the condensed consolidated financial statements for the six months ended 30 June 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements 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") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017 which have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRSs").

The Group's policies on financial risk management were set out in the financial statements included in the Company's 2017 Annual Report and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2018.

The condensed consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values.

The Group's financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period and they are grouped under Level 1 of the fair value hierarchy with reference to quoted market bid prices. The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements at amortised cost approximate their fair values. There was no transfer between levels of the fair value hierarchy of financial instruments during the six months ended 30 June 2018.

Except as described below, the accounting policies applied to the condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those of the Group's annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

(a) New and amendments to HKFRSs, that are mandatorily effective for the financial year beginning on or after 1 January 2018

A number of new or amended standards became applicable for the current interim period. Except for the new and amendments to HKFRSs mentioned below, the application of the other new and amendments to HKFRSs has had no material impact on the Group's accounting policies and the condensed consolidated financial statements.

(i) HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements, in which are relevant to the Group include the classification and measurement of financial instruments with the consideration of the entity's business model and objective on managing the financial instruments and the contractual terms of cash flows and also the impairment methodology on the financial assets and other items.

Upon the application of HKFRS 9, financial assets held by the Group were assessed with the Group's business models and classified its financial instruments into the appropriate HKFRS 9 categories. Loan receivables and notes receivables were held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost.

REIT securities designated as at fair value through profit or loss held give rise to cash flows on specified dates that are not payments of principal and interest on the principal outstanding. Accordingly, these REIT securities continue to be subsequently measured at fair value with subsequent fair value gains or losses to be recognised in the profit or loss.

The Group assessed on a forward looking basis the expected credit losses associated with its assets measured at amortised cost. The Group applied the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition for all trade receivables. The adoption of the simplified expected credit loss approach has not resulted any additional impairment allowance as at 1 January 2018. For other financial assets carried at amortised cost, the Group applied expected credit loss model based on 12-month expected credit loss and also depends on whether there has been a significant increase in credit risk. The expected credit loss is considered immaterial after application.

(ii) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 requires entity recognise revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customers. Upon application of HKFRS 15, the Directors assessed the Group's contracts with customers on the identification of the performance obligations, no material impact and adjustment resulted on the Group's condensed consolidated financial statements.

Under HKFRS 15, a receivable is recognised only if the group has an unconditional right to consideration. If the group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to properties under development for sale and properties held for sale were presented in the statement of financial position under "accounts receivable" or "deposits received and receipts in advance from property buyers" respectively.

(b) New and amendments to HKFRSs that have been in issue but not yet effective

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatment[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 28	Long-term Interests in Associates and Join Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1. Effective for annual periods beginning on or after 1 January 2019
2. Effective for annual periods beginning on or after a date to be determined
3. Effective for annual periods beginning on or after 1 January 2021

The Group will adopt the above new and amendments to HKFRSs when they become effective.

The Group has already commenced an assessment of the related impact of adopting the above new or revised HKFRSs to the Group. The Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the consolidated financial statements will result.

3. ESTIMATES

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

In preparing the condensed consolidated financial statements, the significant judgement made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2017, except for the application of HKFRS 9 and HKFRS 15 as described above.

4. REVENUE AND SEGMENT INFORMATION

	Unaudited Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Revenue is analysed as follows:		
Sale of properties	**348,629**	–
Rental income	**18,398**	14,818
Property management income	**17,057**	9,766
Dividend income from financial assets at fair value through profit or loss	**8,466**	8,410
Income from hotel operations	**1,773**	2,668
Others	**–**	2,315
	394,323	37,977

Information reported to the Board, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance is based on different business activities of the Group. This is also the basis upon which the Group is organised and managed.

Accordingly, the Group's reportable segments under HKFRS 8 are as follows:

a) Property development in the PRC

b) Property investment and management in the United States of America ("USA" or "U.S.") in American Housing REIT, Inc. ("AHR") and property management in the USA provided to Global Medical REIT, Inc. ("GMR"), both performed through a subsidiary of the Group

c) Property investment other than AHR

d) Securities trading and investment

e) Hotel operations

The Group has property investment and/or management businesses in Hong Kong, the USA, Singapore and Japan. Other than AHR which is operated in the USA, the property investment business in other regions are evaluated together and assessed as one reportable segment by CODM.

The following is an analysis of the Group's revenue, results and assets by reportable and operating segments:

Segment revenue and results

	Unaudited			
	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Property development in the PRC	**348,629**	–	**53,287**	(11,046)
Property investment and/or management in the USA through AHR and GMR	**27,526**	17,159	**4,004**	(8,075)
Property investment other than AHR	**7,929**	7,425	**8,642**	2,741
Securities trading and investment	**8,466**	8,410	**20,951**	10,306
Hotel operations	**1,773**	2,668	**(2,271)**	(990)
Others	**–**	2,315	**–**	2,733
	394,323	37,977	**84,613**	(4,331)
Unallocated corporate income			**1,339**	–
Other gains and losses			**(8,734)**	(367)
Unallocated corporate expenses			**(4,623)**	(4,849)
Profit (loss) before taxation			**72,595**	(9,547)

Segment assets

	Unaudited	Audited
	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
Property development in the PRC	**32,441,129**	21,099,394
Property investment and/or management in the USA through AHR and GMR	**345,669**	341,902
Property investment other than AHR	**562,548**	560,311
Securities trading and investment	**192,554**	179,388
Hotel operations	**8,034**	8,124
	33,549,934	22,189,119
Unallocated assets	**95,981**	80,739
	33,645,915	22,269,858

There are no differences from the Group's annual financial statements for the year ended 31 December 2017 in the basis of segmentation or in the basis of measurement of segment profit or loss.

Segment results represent the profit from (loss incurred by) each segment without allocation of certain items, mainly comprising certain corporate income, certain other gains and losses, certain corporate administrative expenses, Directors' and chief executives' salaries. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

For the purposes of monitoring segment performance and allocating resources between segments, all assets are allocated to operating segments other than unallocated assets (comprising certain property, plant and equipment, certain other receivables, deposits and prepayments, and certain bank balances and cash).

Information about segment liabilities is not regularly reviewed by the CODM. Accordingly, no such information is presented.

5. OTHER GAINS AND LOSSES

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Gain on disposal of property, plant and equipment	**78**	27
Increase (decrease) in fair value of investment properties	**7,392**	(148)
Increase in financial assets at fair value through profit or loss	**12,616**	1,508
Exchange (loss) gain, net	**(8,637)**	313
Bad debts written-off in respect of accounts receivable	**(75)**	(434)
Others	**–**	446
	11,374	1,712

6. FINANCE COSTS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
Interests on:		
Bank and other borrowings	**207,463**	12,906
Bonds	**47,165**	–
Loans from a related company	**544**	3,607
	255,172	16,513
Less: capitalised in properties under development for sale and other contract costs	**(247,226)**	(12,181)
	7,946	4,332

Borrowing costs capitalised during the current period arose on borrowings with rates ranged from 4.785% to 7.5% (30 June 2017: 4% to 5.7%) per annum.

7. PROFIT (LOSS) BEFORE TAXATION

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Profit (loss) before taxation has been arrived at after charging:		
Total staff costs (including Directors' emoluments)	**28,864**	15,295
Less: capitalised in properties under development for sale and other contract costs	**(3,627)**	(1,055)
	25,237	14,240
Depreciation of property, plant and equipment	**1,039**	490
Operating lease payments	**1,621**	954
Profit (loss) before taxation has been arrived at after crediting:		
Interest income	**1,329**	2,315
Gross rental income from investment properties	**18,398**	14,818
Less: direct operating expenses incurred for:		
– investment properties generated rental income	**(2,939)**	(4,018)
– investment properties that did not generate rental income	**(74)**	(183)
	(3,013)	(4,201)
	15,385	10,617

8. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June 2018 HK$'000	2017 HK$'000
Income tax expenses comprises:		
Current tax		
– Hong Kong	**–**	–
– The PRC	**29,138**	–
– Overseas	**190**	89
	29,328	89
Under-provision in prior years		
– Overseas	**–**	40
	–	129
PRC land appreciation tax	**8,269**	–
	37,597	129

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profits generated in Hong Kong for the six months ended 30 June 2018 and 2017.

Taxation on profits have been calculated on the estimated assessable profits for the six months ended 30 June 2018 at the rates of taxation prevailing in the countries/places in which the Group's entities operate.

PRC land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

9. DIVIDENDS

No dividend was paid during the six months ended 30 June 2018 (30 June 2017: Nil). The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

10. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit attributable to owners of the Company for the six months ended 30 June 2018 of approximately HK$34,750,000 (30 June 2017: loss attributable to owners of the Company of HK$9,502,000) and the weighted average number of 6,176,819,969 (30 June 2017: 6,176,819,969) ordinary shares in issue during the period.

No dilutive earnings (loss) per share were presented as there were no potential ordinary shares in issue for the six months ended 30 June 2017 and 2018.

11. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired investment properties and property, plant and equipment of approximately HK$2.9 million (30 June 2017: approximately HK$215.4 million).

In addition, during the six months ended 30 June 2018, the Group disposed of certain investment properties and property, plant and equipment with an aggregate carrying amount of approximately HK$11.6 million (30 June 2017: approximately HK$19.2 million).

12. CONTRACT ASSETS, ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	Unaudited 30 June 2018 ***HK$'000***	Audited 31 December 2017 *HK$'000*
Contract assets	**18,522**	69,273
Accounts receivable	**13,379**	13,214
Prepaid business, value-added and other taxes	**366,018**	124,869
Notes receivable	**368,776**	–
Other receivables, deposits and prepayments	**56,204**	32,054
	822,899	239,410
Amounts due from investees	**6,346**	6,346
Impairment on amounts due from an investee	**(6,346)**	(6,346)
	–	–
	822,899	239,410

All contract assets and accounts receivable were aged less than 6 months.

Contract assets and accounts receivable that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Contract assets and accounts receivable of approximately HK$18,522,000 (31 December 2017: HK$69,273,000) past due but not impaired were overdue less than 6 months at the end of the reporting period.

As the Group has hold collaterals over the balances, the Directors are of the view that no allowance for impairment is considered necessary in respect of the contract assets and accounts receivable at the end of the reporting period.

Notes receivable of HK$368,776,000 (31 December 2017: Nil) subscribed during the current reporting period in the principal amount of US$47,000,000 are unsecured, interest bearing at 9.7% per annum and will be redeemed at the principal amount at maturity on the later of (i) 19 October 2018, or (ii) on such date may agree mutually with the issuer in writing, which shall fall on or before 31 January 2019.

As at 30 June 2018 and 31 December 2017, amounts due from investees were fully impaired.

13. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUALS

	Unaudited	Audited
	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
Accounts payable	**60**	252
Accrued construction costs *(Note)*	**424,713**	2,120,891
Rental deposits	**1,117**	1,307
Retention deposits and payable	**23,976**	13,276
Real estate and other taxes payable	**13,918**	22,205
Other payables and accruals	**55,390**	67,632
	519,174	2,225,563

The average credit period of accounts payable ranges from 30 to 90 days (31 December 2017: 30 to 90 days). All accounts payable were aged within one year, based on invoice dates.

Note: Included in accrued construction costs is amounts due to a related company of approximately HK$21,911,000 (31 December 2017: HK$291,073,000) for its construction work.

14. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and repayable on demand.

Ms. Huang Yanping ("Ms. Huang") and together with her spouse, Mr. Zhang Jingguo ("Mr. Zhang") have the controlling interests over these related companies.

15. LOANS FROM A RELATED COMPANY

The Group has entered into loan agreements with a related company, Henan Zensun Real Estate Co., Ltd. ("Zensun"), in which Ms. Huang has controlling interests, pursuant to which Zensun will provide unsecured loan(s).

The loans amounting to approximately HK$24,150,000 (31 December 2017: HK$31,063,000) are unsecured, interest bearing at the lower of (i) 4% per annum or (ii) such other interest rate the Group is able to borrow in an amount equal to the relevant loan from a bank or a financial institution at the date of drawdown. The amounts are repayable within one year.

The remaining loans amounting to approximately HK$15,591,902,000 (31 December 2017: HK$3,166,857,000) are unsecured, interest-free and repayable on demand. Those amounts are shown under the current liabilities as Zensun has the discretionary rights to demand immediate repayment.

In the opinion of the Directors, the carrying amounts of the loans approximate their fair values at initial recognition.

16. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares	Amount
		HK$'000
Ordinary shares with no par value:		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	6,176,819,969	716,706

17. EVENTS AFTER THE REPORTING DATE

(i) On 31 July 2018, the Group has successfully issued the asset-backed securities through the establishment of P&A – Xinghan Zensun's Account Receivables for the Balance Payment of Properties Sold Asset-backed Securities Scheme with an aggregated size of RMB1,600 million (approximately HK$1,896.5 million) with two tranches. Further information in respect of the issue scheme is available in the Company's announcement dated 31 July 2018.

(ii) On 14 August 2018, the Group acquired land use rights of a land parcel located in Zhengzhou City, Henan Province, the PRC through listing for sale process in a public auction held by Zhengdong New District Bureau of Land and Resources Bureau of Zhengzhou City for transfer of state-owned land use rights at a consideration of RMB2,480 million (equivalent to HK$2,939.5 million). The land parcel is designated for residential usage with the term of 70 years. The handover of the land parcel is expected to be completed on or before the fourth quarter of 2018.

(iii) On 24 August 2018, the Group acquired land use rights of two land parcels located in Zhengzhou City, Henan Province, the PRC through listing for sale process in public auctions held by Land and Resources Bureau of Zhengzhou City for transfer of state-owned land use rights at a consideration of RMB241.64 million (equivalent to HK$286.4 million) and RMB270.96 million (equivalent to HK$321.17 million), respectively. The two land parcels is designated for residential usage with the term of 70 years and for retail, wholesale, catering, hostel and commercial finance usages with the term of 40 years, respectively. The handover of the two land parcels is expected to be completed on or before the fourth quarter of 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2018, the Group recorded a turnover of approximately HK$394.3 million and gross profit of approximately HK$168.6 million, representing an increase of 938% as compared to turnover of approximately HK$38.0 million and increase of 440% as compared to gross profit of approximately HK$31.2 million in the corresponding period of 2017. The revenue and gross profit in the first half of 2018 were mainly derived from the property development business in the PRC. The significant increase in revenue and gross profit was primarily attributable to the Group's expansion in property development business in the PRC starting from 2015 and the Group launched the delivery of its completed property development projects since the fourth quarter of 2017.

The Group had net other gains of approximately HK$11.4 million during the six months ended 30 June 2018, as compared to approximately HK$1.7 million in the corresponding period of 2017. The Group's net other gains in first half of 2018 mainly represented the combined effect of increase in financial assets at fair value through profit or loss of approximately HK$12.6 million (the corresponding period of 2017: approximately HK$1.5 million), increase in fair value of investment properties of approximately HK$7.4 million (the corresponding period of 2017: decrease in fair value of investment properties of approximately HK$0.1 million) and offset with the net exchange loss of approximately HK$8.6 million (the corresponding period of 2017: net exchange gain of approximately HK$0.3 million).

The Group's sales and marketing costs increased by 607% from approximately HK$5.8 million during the six months ended 30 June 2017 to approximately HK$40.8 million for the corresponding period of 2018. The Group's administrative expenditure increased by 84% from approximately HK$32.7 million during the six months ended 30 June 2017 to approximately HK$60.0 million in the corresponding period of 2018. Such increases were in line with the further business expansion in the Group's property development business in the PRC since the second quarter of 2017.

The Group's income tax expenses increased from approximately HK$0.1 million during the six months ended 30 June 2017 to approximately HK$37.6 million in the first half of 2018. The increase was primarily attributable to the increase in PRC Enterprise Income Tax and PRC land appreciation tax arising from the operating profits in property development business in the PRC during the current reporting period.

As a result of the foregoing, the Group's profit attributable to owners of the Company for the current reporting period amounted to approximately HK$34.8 million (the corresponding period of 2017: loss attributable to owners of the Company amounted to approximately HK$9.5 million).

The basic earnings per share for the six months ended 30 June 2018 was HK0.56 cents (the corresponding period of 2017: basic loss per share of HK0.15 cents).

The Board does not recommend the payment of a dividend in respect of the first half of 2018 (the corresponding period of 2017: Nil).

BUSINESS REVIEW

Property Development in the PRC

During the six months ended 30 June 2018, the property development business in the PRC contributed revenue of approximately HK$348.6 million (the corresponding period of 2017: Nil) and segment profit of approximately HK$53.3 million (the corresponding period of 2017: segment loss of approximately HK$11.0 million) to the Group. The significant increase in segment revenue and segment profit was attributable to the delivery of the first two completed property development projects since the fourth quarter of 2017.

During the six months ended 30 June 2018, the Group has continuously made successful bids of land parcels through listings for sale processes in auctions held by different local governmental land bureaus in Henan Province, the PRC. Those successful bids further complemented the Group's strategy in expanding its business operation with focus on Zhengzhou City, Henan Province and other first and second tier cities in the PRC. The Group persists continuing effort to expand its land reserve.

During the six months ended 30 June 2018, the Group continued the delivery of its completed property development projects, namely Zensun Xinghan Garden and Zensun Jingkai Plaza, respectively to the customers in accordance with the related terms of sales and purchase agreements.

As at 30 June 2018, the Group had two completed property projects and 20 projects under development and planning with aggregate of total estimated GFA of approximately 6.6 million sq.m. in the PRC. The Group adopts a proactive strategy in project development business and will adjust its pace of business expansion and project development progress as and when appropriate.

Property Investment and/or Management in the USA on AHR and GMR

During the six months ended 30 June 2018, the property investment and management in the USA on AHR and GMR through Inter-American Management, LLC ("IAM"), the 85%-owned REIT management arm of the Group, contributed revenue of approximately HK$27.5 million (the corresponding period of 2017: approximately HK$17.2 million) and segment profit of approximately HK$4.0 million (the corresponding period of 2017: segment loss of approximately HK$8.1 million) to the Group. The significant increase in segment revenue and segment profit was resulted from both the increase in management fee from the enlarged capital base of GMR through several fund raising campaigns in the second half of 2017 and the acquisition of two senior housing communities in the USA during the second quarter of 2017 which brought up new rental income to the Group and contributed an increase in fair value of investment properties.

Property Investment other than AHR

During the six months ended 30 June 2018, the property investment other than AHR division contributed segment revenue of approximately HK$7.9 million (the corresponding period of 2017: approximately HK$7.4 million) and segment profit of approximately HK$8.6 million (the corresponding period of 2017: approximately HK$2.7 million) to the Group. The increase in segment profit was primarily attributable to the increase in fair value of investment properties of approximately HK$5.8 million during the first half of 2018 as compared to decrease in fair value of investment properties of approximately HK$0.6 million over the corresponding period of 2017.

Securities Trading and Investment

During the six months ended 30 June 2018, the Group's securities business recorded segment revenue of approximately HK$8.5 million with segment profit of HK$21.0 million as compared to segment revenue of approximately HK$8.4 million with segment profit of approximately HK$10.3 million over the corresponding period of 2017. The significant increment in segment profit mainly attributed by the increase in financial assets at fair value through profit or loss during the first half of 2018 of approximately HK$12.6 million (the corresponding period of 2017: approximately HK$1.5 million).

Hotel Operations

During the six months ended 30 June 2018, revenue from the hotel operation division declined from approximately HK$2.7 million to approximately HK$1.8 million contributing to a segment loss of approximately HK$2.3 million compared to segment loss of approximately HK$1.0 million over the corresponding period of 2017.

FINANCIAL REVIEW

Liquidity and Capital Resources

Liquidity Position

As at 30 June 2018, the carrying amount of the Group's total cash and bank balances including pledged deposits and restricted bank balances was approximately HK$1,253.5 million (31 December 2017: approximately HK$1,137.1 million), representing an increase of approximately 10%. The total cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars, US dollars, Singapore dollars and Japanese Yen.

As at 30 June 2018, certain bank balances and deposits of the Group were pledged to certain banks and financial institutions as securities for the bank and financial institutions facilities granted to the Group and also the mortgage loan facilities granted to the property buyers of the Group. The total pledged deposits was approximately HK$488.7 million as at 30 June 2018 (31 December 2017: approximately HK$119.2 million).

Capital Structure, Borrowings and Charges on the Group's assets

The capital structure of the Group consists of net debt, which includes bank and other borrowings, loans from a related company, and amounts due to related companies, net of bank balances and cash, restricted bank balances and pledged deposits, and equity attributable to owners of the Company, comprising issued share capital and reserves. As at 30 June 2018, net debt and equity attributable to owners of the Company were approximately HK$23,092.5 million (31 December 2017: approximately HK$14,223.6 million) and approximately HK$1,358.5 million (31 December 2017: approximately HK$1,379.6 million), respectively.

As at 30 June 2018, the Group's aggregate borrowings including bank and other borrowings, loans from a related company and amounts due to related companies amounted to approximately HK$24,346.0 million (31 December 2017: approximately HK$15,360.7 million), of which approximately HK$20,055.9 million (31 December 2017: approximately HK$10,713.8 million) are repayable within one year or on demand, and approximately HK$4,290.1 million (31 December 2017: approximately HK$4,646.9 million) are repayable after one year. The aggregate borrowings were mainly denominated in Renminbi, US dollars, Singapore dollars and Hong Kong dollars.

On 14 February 2018, the Company completed the issuance of bonds at principal amount of US$200 million carrying interest of 7.5% per annum due on 31 January 2019 in accordance with the terms and conditions of the subscription agreement. The bonds are unsecured but guaranteed by a related company, in which Ms. Huang has controlling interests. The bonds proceeds was used for general corporate purposes of the Group. For further information, please refer to the Company's announcements dated 7 February 2018 and 14 February 2018, respectively.

In additions to the fixed rate bonds of 7.5% per annum, the Group's bank and other borrowings carried fixed interest rate of 5.4% per annum and various floating interest rates linking up with international lending rates including Hong Kong Interbank Offered Rate, Singapore Dollar Swap Offered Rate, Singapore Interbank Offered Rate, London Interbank Offered Rate and the base lending rate of the People's Bank of China. The Group's interest rate risk is mainly driven from the bank and other borrowings with floating interest rates. As at 30 June 2018, except the amounts of approximately HK$24.2 million (31 December 2017: approximately HK$31.1 million) recorded in loans from a related company carried at a fixed interest rate at the lower of (i) 4% per annum or (ii) such other interest rate the Group is able to borrow in an amount equal to the relevant loan from a bank or a financial institution at the date of drawdown, the remaining amounts in loans from a related company and the amounts due to related companies were interest-free.

As at 30 June 2018, certain bank and financial institutions facilities granted to the Group together the mortgage loan facilities granted to the property buyers of the Group were secured by certain property, plant and equipment, investment properties, properties under development for sale and other contract costs and pledged deposits with total carrying values of approximately HK$21,083.5 million (31 December 2017: HK$12,582.6 million). In addition, shares of certain subsidiaries of the Group are pledged to secure certain bank and financial institutions facilities granted to the Group as at 30 June 2018. Certain bank and financial institutions facilities were guaranteed by related companies in which controlled by ultimate controlling party of the Company and together with her spouse. No any assets of the Group was pledged to these related companies in respect of the guarantees.

The Group did not use any financial instruments for hedging purpose during the six months ended 30 June 2018.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. In view of the Group's expansion strategy, the Group has sourced funding from its related companies and continued to look for external financing sources. The Group's overall strategy remains unchanged from previous year.

Key Financial Ratios

As at 30 June 2018, the Group recorded a current ratio of 1.2 (31 December 2017: 1.3) and a gearing ratio of approximately 68.6% (31 December 2017: approximately 63.9%). Gearing ratio is defined as the ratio of total borrowings less bank balances and cash, restricted bank balances and pledged deposits to total assets. The increase in gearing ratio was primarily attributable to the increase in loans from a related company for the expansion in property development operation in the PRC and the issuance of bonds during the six months ended 30 June 2018.

Capital Commitments

As at 30 June 2018, the capital commitments of the Group in connection with the property development expenditures was approximately HK$6,106.5 million (31 December 2017: approximately HK$2,795.1 million in connection for property development expenditures and approximately HK$1,263.8 million for land acquisitions, respectively).

Contingent Liabilities

As at 30 June 2018, the Group had contingent liabilities relating to guarantees amounting to approximately HK$2,739.4 million (31 December 2017: approximately HK$1,184.6 million) in respect of mortgage facilities provided by certain banks in connection with the mortgage loans entered into by property buyers of the Group. Pursuant to the terms of the guarantees, upon default in mortgage payments by these buyers, the Group would be responsible for repaying the outstanding mortgage principals together with the accrued interest thereon and any penalties owed by the defaulted buyers to the banks. The Group would be entitled to take over legal title to and possession of the related properties. These guarantees will be released upon the earlier of (i) the satisfaction of the mortgage loan by the property buyers; and (ii) the issuance of the property ownership certificate for the mortgage property and the completion of the deregistration of the mortgage. In the opinion of the Directors, no provision for the guarantee contracts was recognised in the financial statements for the six months ended 30 June 2018 as the default risk is low.

Foreign Exchange Exposure

The revenues, expenses, assets and liabilities are denominated substantially in Hong Kong dollars, US dollars, Renminbi, Singapore dollars and Japanese Yen in its respective group entities. Due to the currency peg of the Hong Kong dollars to the US dollars, the exchange rate between these two currencies has remained stable and thus the Group currently does not implement any hedging or other alternatives. Going forward, the Group may formulate a foreign currency hedging policy to provide a reasonable margin of safety for its exposure to Renminbi, Singapore dollars and Japanese Yen through transactions, assets and liabilities should the need arise.

Significant Investment Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Venture and Future Plans for Material Investments or Capital Assets

(a) In January 2018, the Group has made four successful bids for land use rights for a land parcel in Zhengzhou City, Henan Province, the PRC (i) with site area of approximately 50,920.98 sq.m. for residential use and commercial and financial use at a consideration of RMB1,146,000,000; and three land parcels in Xinzheng City, Henan Province, the PRC; (ii) with site area of approximately 43,470.40 sq.m. for residential use at a consideration of RMB800,870,000; (iii) with site area of approximately 46,805.08 sq.m. for residential use at a consideration of RMB1,024,160,000; and (iv) with site area of approximately 45,515.87 sq.m. for residential use at a consideration of RMB995,490,000. These development projects are expected to be completed gradually and respectively no later than the first quarter, the third quarter and the fourth quarter of 2021 and the first quarter of 2022;

(b) In March 2018, the Group has made sixteen successful bids for land use rights for sixteen land parcels in Gongyi City, Henan Province, the PRC with total site area of approximately 743,799.14 sq.m. for residential use, commercial and public facilities use at an aggregate consideration of RMB312,420,000. These development projects are expected to be completed gradually and no later than the fourth quarter of 2020.

(c) In April 2018, the Group has made three successful bids for land use rights of three land parcels in Zhengzhou City, Henan Province, the PRC (i) with site area of approximately 79,585.58 sq.m. for residential use at a consideration of RMB635,420,000; (ii) with site area of approximately 63,391.95 sq.m. for residential use at a consideration of RMB458,650,000; (iii) with site area of approximately 84,309.66 sq.m. for residential use at a consideration of RMB610,070,000; and one land parcel in Xuchang City, Henan Province, the PRC (iv) with site area of approximately 62,832 sq.m. for residential use at a consideration of RMB284,500,000. These development projects are expected to be completed gradually and no later than the fourth quarter of 2021.

(d) In June 2018, the Group has made seven successful bids for land use rights for seven land parcels in Gongyi City, Henan Province, the PRC with total site area of approximately 243,903.45 sq.m. for residential use, commercial, accommodation and catering usage at an aggregate consideration of RMB134,890,000. These development projects are expected to be completed gradually and no later than the first quarter of 2021.

Save as disclosed above, the Group did not hold other significant investment, make any other material acquisitions and disposals of subsidiaries, associates or joint venture or future plan for material investment or capital assets during the six months ended 30 June 2018.

Employee and Remuneration Policy

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance-related bonuses. The Company has obtained a new award, the Certificate of the Good Employer Charter issued by the Labour Department in recognition of the Company which has adopted employee-oriented and progressive human resource management practices, thereby can help boost staff morale, enhance their employees' sense of belonging and hence laying a solid foundation for business growth. The Company adopted a share option scheme on 28 August 2013 and share options may also be granted to eligible employees of the Group. Total staff costs, including Directors' emoluments during the six months ended 30 June 2018, amounted to approximately HK$28.9 million (30 June 2017: HK$15.3 million).

As at 30 June 2018, the Group had 267 employees.

Outlook and Prospects

The Group will continue to be principally engaged in the businesses of property development, property investment and management and hotel operations and look for investment opportunities which strengthen profitability under the acceptable risk in Hong Kong, the PRC and overseas markets.

The Group will primarily finance the repayments on financial assistance from the controlling shareholder through proceeds from the pre-sale and sale of Group's properties, internally generated cash flows from other operations, and borrowings from commercial banks and financial institutions. Going forward, the Group believes our future capital needs in support of project construction and land acquisition activities will be satisfied by the above-mentioned sources and additional issuance of equity securities or other capital market instruments.

The Group seeks to manage the level of our liquid assets to ensure the availability of sufficient cash flows to meet any unexpected cash requirements arising from our business operation. The Group will also continue to assess available financial resources in support of our business needs on an ongoing basis and plan and adjust our development schedule or implement cost control measures if necessitated by our then-existing financial conditions and cash requirements.

The Group intends to continue to access existing capital resources, and to seek new sources of funding, to maintain and grow our business on a cost-effective basis.

The PRC

The continuous successful bids for land parcels during first half of 2018 complemented the Group's strategy in expanding its business operation in the PRC. Thus, the Board will continue to identify new property development projects and bid for land use rights of other selective land parcels in the PRC with a focus in Zhengzhou City, Henan Province and other first and second tier cities in the PRC in the coming few years.

In view of the above positive development in land acquisitions and the ongoing property development projects, the Group's needs on construction work for properties development is expected to increase substantially in the near future. In this regard, the Group continuously engaged group members of Henan Zensun Corporate Development Company to cope with construction and development on certain selected property projects under the master service agreement as amended by the supplemental agreement.

Furthermore, the Company takes leverage on the PRC property development and investment experience of its management team to seek development in suitable projects with potential to deliver value to its shareholders. In addition to existing business partners, the Company will continue to seek potential partners' cooperation to explore capital resources, reduce capital investment at an early stage and facilitate project development. The management remains cautiously optimistic on the long-term prospects of the real estate industry and will expedite its property development and sales of its development projects in the PRC through making use of its own advantages and leveraging on the national network and business resources of Zensun. The synergistic effect brought by Zensun will improve the position of the Group in the real estate industry in the PRC.

The U.S.

As at the date of this announcement, the Group has approximately 12.0% equity interest in a NYSE-listed REIT, GMR and 99% equity interest in AHR, both are operated and managed by IAM, the 85%-owned REIT management arm of the Group, led by a specialised team of highly experienced professionals with deep knowledge in the USA real estate market.

1. GMR

   The Group has continued providing REIT management services and receiving recurring management fees directly to and from GMR pursuant to the revised management agreement between GMR and IAM. During the first half of 2018, GMR completed 6 acquisitions of medical and healthcare facilities and continuously enlarged its asset base. It is expected that future fund raising of GMR will further increase its capital base which in return increase the management fee income to be received from GMR.

2. AHR

AHR is currently 99%-controlled by the Company and owns a portfolio of single-family rentals primarily in Texas, Florida, Georgia and North Carolina. With the Group's strategy in seeking for higher-than-average annualised yield, the Group revisits the current properties portfolio of AHR and diversifies its investment from single family housing to senior housing communities in order to seize the potential opportunity for the current strong demand on retirement communities and elderly care industries in the USA.

Other operations

The Group will regularly review the Singapore property market to explore business opportunity in this market in the foreseeable future. For the non-core Japan hotel business, while the Group is seeking potential buyers to dispose the hotels or operation to enable the Group to deploy its resources in the most efficient way, it is actively seeking ways to enhance its overall profitability with a view to enabling the operation to be self-sustainable.

Overall

The Company will make use of the Group's financial, human and technological resources to enhance its portfolio, asset base and brand image in the PRC, USA and overseas with business growth opportunities.

CHANGES SINCE 31 DECEMBER 2017

Save as disclosed in this announcement, there were no other significant changes in the Group's financial position or from the information disclosed under Management Discussion and Analysis in the Company's 2017 Annual Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all code provisions ("Code Provisions") and, where applicable, the recommended best practices of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2018, save for the deviations which are explained below:

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive of the Company should be segregated. The Company is of the view that it is in the best interest of the Company that Mr. Zhang Jingguo, with his profound expertise in the property business, shall continue in his dual capacity as chairman and chief executive officer.

Pursuant to code provision C.2.5 of the CG Code, the Group should have an internal audit function. The Company conducted an annual review on the need for setting up an internal audit department. Given the Group's simple operating structure, it was decided that the Board would be directly responsible and review on the adequacy and effectiveness of the risk management and internal control systems of the Group. Review on the risk management and internal control systems of the Group, including the analysis and appraisal of its adequacy and effectiveness, are conducted in an ongoing basis.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. The Company has made specific enquiry with all the Directors and, all the Directors confirmed that they have fully complied with the required standards set out in the Model Code during the six months ended 30 June 2018.

AUDIT COMMITTEE

The Audit Committee is primarily responsible to assist the Board in reviewing and monitoring the financial reporting process, risk management and internal control systems of the Group, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The Audit Committee comprises three independent non-executive Directors, namely Mr. Liu Da, Dr. Liu Qiao and Mr. Ma Yuntao.

The Audit Committee has reviewed with the management of the Company, the accounting principles and practices adopted by the Group and discussed, among other things, financial reporting matters including a review of the unaudited condensed consolidated results for the six months ended 30 June 2018 of the Group.

ACKNOWLEDGEMENT

We would like to thank the management and all of our staff for their hard work and dedication, as well as our shareholders for their continuous support to the Group.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S AND COMPANY'S WEBSITE

The Company's interim report for the six months ended 30 June 2018 will be despatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk under "Latest Listed Company Information" and on the website of the Company at http://www.zhsuccess.com under "Investor Relations" in due course.

By Order of the Board
ZH International Holdings Limited
Zhang Jingguo
Chairman, Chief Executive Officer
and Executive Director

Hong Kong, 29 August 2018

As at the date of this announcement, the executive Directors are Mr. Zhang Jingguo and Mr. Zhang Guoqiang; the non-executive Director is Ms. Huang Yanping and the independent non-executive Directors are Dr. Liu Qiao, Mr. Liu Da and Mr. Ma Yuntao.