



RUIXIN INTERNATIONAL HOLDINGS LIMITED
瑞鑫國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 724)

INTERIM REPORT 2018

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng (*Chairman*)
Mr. Lam Yat Keung
Mr. Huang Hanshui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Ms. Liu Yanfang
Mr. Zhang Jue

AUDIT COMMITTEE

Mr. Ho Chi Fai (*Chairman*)
Ms. Liu Yanfang
Mr. Zhang Jue

REMUNERATION COMMITTEE

Mr. Zhang Jue (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

NOMINATION COMMITTEE

Ms. Liu Yanfang (*Chairman*)
Mr. Wang Zhaofeng
Mr. Zhang Jue

INVESTMENT COMMITTEE

Mr. Zhang Jue (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

COMPANY SECRETARY

Ms. Tsang Man Sze

REGISTERED OFFICE

Clarendon House
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Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda)
Limited
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Hamilton HM DX
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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Hong Kong

SHARE LISTING

The Stock Exchange of
Hong Kong Limited
Stock Code: 724

WEBSITE

www.irasia.com/listco/hk/ruixin

The board (the “Board”) of directors (the “Director(s)”) of Ruixin International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018, together with the comparative figures for the corresponding period and selected explanatory notes as set out below.

Results Overview

For the six months ended 30 June 2018 (the “Reporting Period”), the Group reported revenue of approximately HK\$251.6 million, representing an increase of approximately 1.9% as compared with approximately HK\$246.8 million for the six months ended 30 June 2017 (the “Corresponding Period”).

Loss for the Reporting Period increased to approximately HK\$30.5 million from approximately HK\$28.6 million for the Corresponding Period. The increase in loss for the Reporting Period was mainly due to, among others, the exchange loss in the Reporting Period but the exchange gain in the Corresponding Period and the increase in imputed interest expenses on convertible notes in the Reporting Period.

Other than the imputed interest expenses on convertible notes which arose as a result of accounting treatment under the provisions of the applicable accounting standards, the Group made a loss of approximately HK\$22.3 million for the Reporting Period, as compared with a loss of approximately HK\$21.5 million for the Corresponding Period.

Financial Highlights

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Revenue	251,645	246,754
Gross profit	12,668	11,743
Loss for the period	(30,539)	(28,597)
Imputed interest expenses on convertible notes	(8,258)	(7,088)
Loss for the period before imputed interest expenses on convertible notes	(22,281)	(21,509)

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The electronic products business reported a slight increase of approximately 1.9% in revenue from approximately HK\$246.8 million in the Corresponding Period to approximately HK\$251.6 million in the Reporting Period. The gross profit for the electronic products business during the Reporting Period was approximately HK\$12.7 million at a gross margin of approximately 5.0% which was similar to the gross margin of approximately 4.8% during the Corresponding Period. Global shortage of raw materials for the semiconductors industry has remained during the Reporting Period, and the Group has tried every effort to stabilise the supply and the raw material cost in order to maintain a stable gross margin.

As at 30 June 2018 and the date of this report, the principal amount of the convertible notes remained outstanding was HK\$260.4 million with a conversion price of HK\$0.035 per share and the maturity date is 31 January 2019. As the maturity date is less than 12 months, the convertible notes were reclassified as current liabilities during the Reporting Period. In addition, the Group incurred a loss of approximately HK\$30.5 million for the Reporting Period and had net current liabilities of approximately HK\$54.3 million and net liabilities of approximately HK\$26.5 million as at 30 June 2018. The Group does not forecast that it can fully redeem the outstanding convertible notes by their maturity date (the "CN Issue").

Nonetheless, the Group had no outstanding bank borrowings and the convertible notes accounted for approximately 72.9% of total liabilities as at 30 June 2018. If the convertible notes remained as non-current liabilities, the Group would have net current assets of approximately HK\$196.0 million and a current ratio of 3.1 times as at 30 June 2018. Subsequent to the Reporting Period, the convertible note holder has indicated that he would not request the Company to redeem the convertible notes prior to 31 July 2019 causing the Company insolvent. The Company and its financial advisor are negotiating with the convertible note holder on the CN Issue, and at the same time, the Company is also considering fund raising possibilities to improve the Group's financial position. The Directors are hopeful that the CN Issue can be resolved amicably and the Group will be able to maintain itself as a going concern within the next twelve months. Accordingly, the condensed consolidated financial statements for the Reporting Period have been prepared on a going concern basis.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business and Financial Review *(Continued)*

The Group is seeking and exploring business opportunities in Vietnam to improve the prospect of the Group. The Company has set up an indirect wholly-owned subsidiary in Vietnam and is in a preliminary stage of studying potential investment opportunities including the development of an expressway project in Vietnam. The Company wishes to highlight that no binding agreement in relation to the potential investment opportunities has been entered into as at the date of this report.

Liquidity, Financial Resources and Capital Structure

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 30 June 2018, the Group had bank balances and cash of approximately HK\$37.5 million (31 December 2017: approximately HK\$45.5 million). The Group's current ratio (measured as total current assets to total current liabilities) was 0.8 times (31 December 2017: 3.3 times).

As at 30 June 2018, the Company had outstanding zero coupon convertible notes due on 31 January 2019 with an aggregate principal amount of HK\$260.4 million (31 December 2017: HK\$260.4 million) with a conversion price of HK\$0.035 per share.

As at 30 June 2018, the Group had no outstanding bank borrowings (31 December 2017: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 30 June 2018 and 31 December 2017.

As at 30 June 2018, the Group had no capital expenditure commitments (31 December 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Significant Investments

The Group did not have any significant investments during the Reporting Period.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Period.

Charge on Group's Assets

As at 30 June 2018, the Group did not have any assets pledged (31 December 2017: nil).

Foreign Exchange Exposures

The Group mainly earns revenue and incurs costs in Hong Kong dollars, U.S. dollars and Renminbi ("RMB"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

Contingent Liability

Details of the contingent liability of the Group are set out in note 16 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Employee and Remuneration Policy

As at 30 June 2018, the Group had 476 (30 June 2017: 434) full time employees in Hong Kong, the People's Republic of China (the "PRC" or "China") (including 431 (30 June 2017: 387) subcontractor's staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK\$13.6 million (six months ended 30 June 2017: approximately HK\$14.3 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

Future Outlook

As the global cyclical upswing approaches its two-year mark, the pace of expansion in some economies appears to have peaked and growth has become less synchronised across countries, according to the International Monetary Fund (the "IMF"). While the IMF continues to project global growth at 3.9% for 2018 and 2019, growth projections have been revised down for the euro area, Japan and the United Kingdom, reflecting negative surprises to activity in early 2018. In the United States, near-term momentum in the economy is expected to strengthen temporarily, with growth projected at 2.9% in 2018 and 2.7% in 2019 on substantial fiscal stimulus and robust private demand. Nonetheless, economists are concerned about the potential drag on growth from trade wars and warned that the U.S. growth would depend in part on the outcome of the trade battle, according to reports dated 18 and 27 July 2018 in the Financial Times (the "FT"). According to the IMF, escalating and sustained trade actions could derail the recovery and depress medium-term growth prospects, both through their direct impact on resource allocation and productivity and by raising uncertainty and taking a toll on investment.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Outlook *(Continued)*

China's economy expanded by 6.7% in the second quarter, its slowest pace since 2016, as the impact of an aggressive deleveraging campaign curtailed investment in infrastructure and manufacturing, according to a report dated 16 July 2018 in the FT. The pace of economic expansion is eased slightly from 6.8% in the first quarter and still above the government's target of "around 6.5%" growth for the year, but the slowdown comes as Beijing's trade war with the U.S. adds to headwinds from slowing domestic demand. Fixed asset investment grew by a record low of 6.0% in the first half, industrial output growth fell to 6.0% in June 2018 from 6.8% in May 2018 and retail sales rose 9.0%, according to reports dated 16 July 2018 in the FT and the South China Morning Post (the "SCMP"). The impact of the trade war is not yet evident in China's published economic data and growth could fall even further if a trade war with the U.S. escalates. That is leading policy makers to pivot away from a previous emphasis towards restraining debt and shift towards stimulus, and China has unveiled a mix of tax cuts and infrastructure spending to cushion the economy, besides the required reserve ratio cut and injection of liquidity through MLF, according to a report dated 24 July 2018 in the FT.

The U.S. and China each imposed the first round of tariffs on US\$34 billion worth of imports beginning on 6 July 2018. Mr. Trump has threatened tariffs on up to US\$500 billion. While China's imports of U.S. goods were US\$130 billion in 2017 limiting its capacity for retaliatory tariffs, Beijing has indicated it could respond by other means. How far the trade war escalates remains unclear, but there are estimates that the cumulative impact of the measures now on the table could potentially reduce China's overall economy by 0.5 percentage points, according to reports dated 6 July 2018 in the FT and 13 July 2018 in the SCMP. Though the government will provide support via fiscal and monetary policies, it is inevitable that industrial production will slow as the trade war weighs on manufacturing and logistics sectors, which could hurt wage growth and consumption, as per a report dated 17 July 2018 in the SCMP. The official Purchasing Managers' Index (PMI) fell to 51.2 in July 2018 from 51.5 in June 2018 and 51.9 in May 2018. According to the IMF, growth in China is projected to moderate to 6.6% in 2018 and 6.4% in 2019 from 6.9% in 2017, as regulatory tightening of the financial sector takes hold and external demand softens.

As the trade wars are expected to affect the world's economy, especially for manufacturers in the PRC, the Group, being one of them, would inevitably be affected. Customers may hesitate to place orders due to the uncertainties in the global markets and product prices may need to be inflated due to the extra tariff. Currently, the depreciation of the Renminbi in mid 2018 has also worsened the situation. The Group needs to take extra caution in observing the development of the tariff battle and responding to the change in the market from time to time in order to minimise its impact to the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	86,827,895	0.63%

Note: Mr. Huang Hanshui, an executive Director, has a derivative interest in 86,827,895 shares pursuant to share options granted to him on 6 December 2010.

Save as disclosed above, as at 30 June 2018, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, the register of substantial shareholders of the Company maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the Chief Executives, the following shareholder of the Company ("Shareholder(s)") had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the shares and underlying shares of the Company:

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	9,182,985,823	66.12%

Note: Mr. Li Weimin is interested in 9,182,985,823 shares, consisting of (i) an interest in 1,742,985,823 shares beneficially owned and held in his own name; and (ii) a derivative interest in 7,440,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK\$260,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2018.

SHARE OPTION SCHEME

On 8 June 2012, the Company adopted a new share option scheme (the "Scheme") under which the Board may, at its discretion, grant options to eligible participants under the Scheme. The Board is able to grant options under the Scheme carrying the right to subscribe for a maximum of 1,388,919,858 shares, representing 10% of the total number of shares in issue as at the date of the annual general meeting of the Company held on 11 June 2018.

SHARE OPTION SCHEME (Continued)

The following table discloses the movements of the Company's share options for the Reporting Period:

Participants	Date of grant	Exercise price per share	Number of share options				Outstanding at 30 June 2018 '000
			Outstanding at 1 January 2018 '000	Grand during the period '000	Exercised during the period '000	Cancelled/ lapsed during the period '000	
Director							
Mr. Huang Hanshui	6 December 2010	HK\$0.305	86,828	-	-	-	86,828
Customers, suppliers and other eligible persons (in aggregate)							
	6 December 2010	HK\$0.305	86,828	-	-	-	86,828
	30 November 2011	HK\$0.098	226,284	-	-	-	226,284
			<u>399,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>399,940</u>
Exercisable at the end of the Reporting Period							<u>399,940</u>
Weighted average exercise price		HK\$0.188	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>HK\$0.188</u>

The share options outstanding at 30 June 2018 had an exercisable period of ten years from the date of grant.

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

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

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has applied the principles of and complied with the code provisions (the “Code Provision(s)”) set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company’s strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

Moreover, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the “Bye-laws”) and the Listing Rules. Under the Bye-laws, one-third of the directors shall retire from office by rotation at each annual general meeting. According to the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

GOING CONCERN BASIS

The Group incurred a loss of approximately HK\$30.5 million for the Reporting Period and had net current liabilities of approximately HK\$54.3 million and net liabilities of approximately HK\$26.5 million as at 30 June 2018. In addition, the convertible notes with outstanding principal amount of HK\$260.4 million will be matured on 31 January 2019 but the Group does not forecast that it can fully redeem the outstanding convertible notes by their maturity date. Nonetheless, as at 30 June 2018, the Group had no outstanding bank borrowings and the convertible notes accounted for approximately 72.9% of total liabilities. Subsequent to the Reporting Period, the convertible notes holder indicated that he would not request the Company to redeem the convertible notes prior to 31 July 2019 causing the Company insolvent. The Company and its financial advisor are negotiating with the convertible notes holder on the CN Issue, and at the same time, the Company is also considering fund raising possibilities to improve the Group's financial position. The Directors are hopeful that the CN Issue can be resolved amicably and the Group will be able to maintain itself as a going concern within the next twelve months. Accordingly, the condensed consolidated financial statements for the Reporting Period have been prepared on a going concern basis. Details are set out in the paragraphs headed "Business and Financial Review" in Management Discussion and Analysis on page 3 of this report and in note 1 to the condensed consolidated financial statements.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the “Audit Committee”) has reviewed with management of the Company the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the Reporting Period.

The members of the Audit Committee are Mr. Ho Chi Fai (the chairman of the Audit Committee), Ms. Liu Yanfang and Mr. Zhang Jue, the independent non-executive Directors.

APPRECIATION

On behalf of the Board, I would like to thank all employees for their hard work and dedication as well as our Shareholders and business partners for their continued support.

On behalf of the Board
Ruixin International Holdings Limited
Wang Zhaofeng
Chairman

Hong Kong, 24 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Notes			
	Revenue	251,645	246,754
	Cost of sales	(238,977)	(235,011)
	Gross profit	12,668	11,743
	Other income	4	1,290
	Distribution costs	(12,044)	(10,800)
	Administrative expenses	(22,906)	(23,740)
	Share of results of joint ventures	(3)	(2)
4	Finance costs	(8,258)	(7,088)
	Loss before taxation	(30,539)	(28,597)
	Taxation	-	-
	Loss for the period attributable to owners of the Company	(30,539)	(28,597)
	Loss per share (in Hong Kong cents)		
8	Basic and diluted	(0.220)	(0.206)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Loss for the period	<u>(30,539)</u>	<u>(28,597)</u>
Other comprehensive expenses for the period Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	<u>(287)</u>	<u>(148)</u>
Total comprehensive expenses for the period attributable to owners of the Company	<u>(30,826)</u>	<u>(28,745)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	25,249	28,414
Interests in joint ventures	10	2,581	2,584
		<u>27,830</u>	<u>30,998</u>
Current assets			
Inventories		96,502	85,911
Trade receivables	11	152,025	174,190
Prepayments, deposits and other receivables		2,610	3,613
Deposits in other financial institutions		446	446
Bank balances and cash		37,531	45,512
		<u>289,114</u>	<u>309,672</u>
Current liabilities			
Trade payables	12	82,010	79,359
Other payables and accruals		8,683	12,480
Amount due to a joint venture		2,463	2,475
Convertible notes	13	250,273	–
		<u>343,429</u>	<u>94,314</u>
Net current (liabilities) assets		<u>(54,315)</u>	<u>215,358</u>
Total assets less current liabilities		<u>(26,485)</u>	<u>246,356</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Non-current liabilities			
Employee benefits		13	13
Convertible notes	13	—	242,015
		<u>13</u>	<u>242,028</u>
Net (liabilities) assets		<u>(26,498)</u>	<u>4,328</u>
Capital and reserves			
Share capital	14	138,892	138,892
Reserves		<u>(165,390)</u>	<u>(134,564)</u>
Total (deficit) equity		<u>(26,498)</u>	<u>4,328</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note a) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve (note b) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2018 (audited)	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,544,953)	4,328
Loss for the period	-	-	-	-	-	-	-	(30,539)	(30,539)
Other comprehensive expense for the period	-	-	-	-	(287)	-	-	-	(287)
Total comprehensive expenses for the period	-	-	-	-	(287)	-	-	(30,539)	(30,826)
At 30 June 2018 (unaudited)	138,892	2,271,283	5,800	21,668	80	78,400	32,871	(2,575,492)	(26,498)

For the six months ended 30 June 2017

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note a) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve (note b) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	138,892	2,271,283	5,800	21,668	779	49,464	-	(2,473,268)	14,618
Loss for the period	-	-	-	-	-	-	-	(28,597)	(28,597)
Other comprehensive expense for the period	-	-	-	-	(148)	-	-	-	(148)
Total comprehensive expenses for the period	-	-	-	-	(148)	-	-	(28,597)	(28,745)
Derecognition upon modification of terms of convertible notes (note 13)	-	-	-	-	-	(49,464)	-	49,464	-
Recognition upon modification of terms of convertible notes (note 13)	-	-	-	-	-	78,400	33,588	(78,400)	33,588
Transaction costs attributable to modification of terms of convertible notes (note 13)	-	-	-	-	-	-	(717)	-	(717)
At 30 June 2017 (unaudited)	138,892	2,271,283	5,800	21,668	631	78,400	32,871	(2,530,801)	18,744

Notes:

- The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.
- Other reserve represents the deemed contribution from the substantial shareholder in respect of the modification of terms of convertible notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Net cash used in operating activities	(4,614)	(4,786)
Net cash used in investing activities	(3,085)	(3,291)
Net cash used in financing activities	–	(717)
Net decrease in cash and cash equivalents	(7,699)	(8,794)
Cash and cash equivalents at beginning of the period	45,512	64,387
Effect of foreign exchange rate changes	(282)	(155)
Cash and cash equivalents at end of the period, representing bank balances and cash	37,531	55,438

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

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 (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Going concern basis

In preparing the condensed consolidated financial statements, the directors of the Company (the “Director(s)”) have given consideration to the future liquidity of the Group.

The Group incurred a loss of approximately HK\$30,539,000 for the Reporting Period and had net current liabilities of approximately HK\$54,315,000 and net liabilities of approximately HK\$26,498,000 as at 30 June 2018. In addition, the convertible notes with outstanding principal amount of HK\$260,400,000 will be matured on 31 January 2019 but the Group does not forecast that it can fully redeem the outstanding convertible notes by their maturity date (the “CN Issue”). The Directors are of the opinion that it is still appropriate to prepare the condensed consolidated financial statements for the six months ended 30 June 2018 on a going concern basis by taking into consideration of the following.

As at 30 June 2018, the Group had no outstanding bank borrowings and the convertible notes accounted for approximately 72.9% of total liabilities. Subsequent to the Reporting Period, the Company has received a letter of undertaking from the sole holder of convertible notes who indicated that he would not request the Company to redeem the convertible notes prior to 31 July 2019 causing the Company insolvent. The Company and its financial advisor are negotiating with the convertible notes holder on the CN Issue, and at the same time, the Company is also considering fund raising possibilities to improve the Group’s financial position. The Directors are hopeful that the CN Issue can be resolved amicably and the Group will be able to maintain itself as a going concern within the next twelve months. The condensed consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The Group has not applied any new or revised HKFRSs that are not yet effective for the current interim period.

The application of the new and amendments to HKFRSs in the current interim period has had no material impact, except as discussed below, on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together two aspects of the accounting for financial instruments: classification and measurements, and impairment.

Classification and measurement

All recognised financial assets that are within the scope of HKFRS 9 are to be subsequently measured at amortised cost or fair value, depending on the entity's business model for managing the financial assets and cash flow characteristics of the asset.

There are measurement categories into which the Group classifies its debt instruments:

Financial assets at amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on principal outstanding are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit and loss and presented in other income or loss for the year, together with foreign exchange gains and losses.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

All financial liabilities continue to be measured on the same bases as are previously measured under HKAS 39.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets which are subjected to impairment under HKFRS 9 (including trade receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9 and records lifetime ECL that results from all possible default events over the expected life of these financial instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 9 Financial Instruments *(Continued)*

Impairment of financial assets *(Continued)*

For other financial instruments, the ECL is based on the 12-month ECL. The 12-months ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at reporting date with that assessed at the date of initial recognition. In making the assessment the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Despite the above requirements, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have a low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default and is estimated as the difference between all contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

As such, the Directors considered the adoption of the HKFRS 9 Financial Instruments does not have material impact to the Group arising from these changes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no material impact on the timing of revenue recognition in this regard.

3. REVENUE AND SEGMENT INFORMATION

As set out in the Company's annual report for the year ended 31 December 2017, the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components.

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Imputed interest expenses on convertible notes	8,258	7,088

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2018 and 2017 as the Group has no assessable profits arising in Hong Kong for both reporting periods. The tax rate of Hong Kong Profits Tax is 16.5% (2017:16.5%).

Under the Law of the People's Republic of China (the "PRC" or "China") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% for the six months ended 30 June 2018 and 2017. No provision for the Enterprise Income Tax has been made for the six months ended 30 June 2018 and 2017 as the subsidiary of the Company has no assessable profits for both reporting periods.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% for the six months ended 30 June 2018 and 2017. No provision for the Corporate Income Tax has been made for the six months ended 30 June 2018 and 2017 as the subsidiary of the Company has no assessable profits for both reporting periods.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	(4)	(6)
Depreciation of property, plant and equipment	6,237	3,947
Write-back of accruals	–	(232)
Net exchange loss (gain)	339	(1,020)
Net gain on disposals of property, plant and equipment	–	(32)

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK\$30,539,000 (six months ended 30 June 2017: approximately HK\$28,597,000) and the weighted average number of approximately 13,889,199,000 (six months ended 30 June 2017: approximately 13,889,199,000) ordinary shares in issue during the reporting period.

For the six months ended 30 June 2018 and 2017, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the six months ended 30 June 2018 and 2017 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the six months ended 30 June 2018 and 2017 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group spent approximately HK\$3,077,000 on the addition of plant and machinery and others (six months ended 30 June 2017: approximately HK\$3,317,000 on the addition of plant and machinery and leasehold improvements and others).

Property, plant and equipment with carrying value of approximately HK\$nil were disposed of by the Group during the six months ended 30 June 2017 for cash proceeds of approximately HK\$32,000, resulting in a net gain on disposals of approximately HK\$32,000. No property, plant and equipment were disposed of by the Group during the six months ended 30 June 2018.

10. INTERESTS IN JOINT VENTURES

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Cost of unlisted investments in joint ventures	5,998	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	(3,417)	(3,414)
	2,581	2,584

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

10. INTERESTS IN JOINT VENTURES *(Continued)*

Details of each of the Group's joint ventures, which are accounted for using the equity method in the condensed consolidated financial statements, as at 30 June 2018 and 31 December 2017, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2018		2017		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	-	50%	-	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	-	50%	-	50%	Trademark holding

11. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days (31 December 2017: 30 to 120 days) to its trade customers.

The following is an ageing analysis of trade receivables, net of impairment, presented based on the due date at the end of the reporting periods:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Current	120,516	154,018
Overdue:		
– within 3 months	17,462	16,287
– 4 - 6 months	9,503	3,885
– 7 - 12 months	4,544	-
	31,509	20,172
	152,025	174,190

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

12. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the due date at the end of the reporting periods:

	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
Current	79,633	73,042
Overdue:		
– within 3 months	2,377	5,407
– 4 - 6 months	–	910
	82,010	79,359

13. CONVERTIBLE NOTES

As at 30 June 2018 and 31 December 2017, the principal amount of convertible notes that remained outstanding was HK\$260,400,000. On 14 November 2014, the Company and the convertible notes holder entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK\$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK\$0.12 per share would be adjusted to the conversion price of HK\$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2015.

Convertible notes of the Company with an aggregate principal amount of HK\$42,000,000 were converted into 1,199,999,998 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.035 per share on 4 June 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

13. CONVERTIBLE NOTES *(Continued)*

On 14 December 2016, the Company and the convertible notes holder entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes with an aggregate principal amount of HK\$260,400,000 would be extended from 31 December 2016 to 31 January 2019. Save for the above alteration, all other terms and conditions of the outstanding convertible notes remained unchanged. On 16 January 2017, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017, as well as the circular of the Company dated 29 December 2016 and the Company's annual report for the year ended 31 December 2017.

The extension of the maturity date resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 16 January 2017, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK\$260,400,000 and HK\$49,464,000 respectively. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK\$226,812,000 and HK\$78,400,000 respectively. These caused an increase of approximately HK\$32,871,000 (net of the transaction costs of approximately HK\$717,000) in other reserve in the condensed consolidated statement of changes in equity and a transfer of a net amount of approximately HK\$28,936,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the six months ended 30 June 2017.

The imputed interest charged on the convertible notes for the six months ended 30 June 2018 amounted to approximately HK\$8,258,000 (six months ended 30 June 2017: approximately HK\$7,088,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

14. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised ordinary shares of HK\$0.01 each: At 1 January 2017, 31 December 2017 and 30 June 2018	30,000,000	300,000
Issued and fully paid ordinary shares of HK\$0.01 each: At 1 January 2017, 31 December 2017 and 30 June 2018	13,889,199	138,892

15. RELATED PARTY TRANSACTIONS

During the current interim period, the Group had the following transactions with related parties:

- (a) The following balances were outstanding at the end of the reporting periods:

	Amounts due to related parties	
	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
A joint venture (note)	2,463	2,475
Directors' emoluments payables (included in other payables) (note)	956	1,701

Note:

The amount due to a joint venture and Directors' emoluments payables were unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

15. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) As set out in note 10, Semtech Electronics is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration.
- (c) During the six months period ended 30 June 2018, remuneration of approximately HK\$825,000 (six months ended 30 June 2017: HK\$840,000) were paid or payable to a close family member of a Director as the position of a director of certain subsidiaries of the Group. In addition, remuneration of approximately HK\$1,123,000 (six months ended 30 June 2017: HK\$1,050,000) were paid or payable to other close family members of the above-mentioned Director as staff costs of certain subsidiaries of the Group.
- (d) The remuneration of the Directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	4,480	4,391
Post-employment benefits	117	117
	4,597	4,508

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the six months ended 30 June 2018

16. CONTINGENT LIABILITY

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US\$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the condensed consolidated financial statements.

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's financial instruments, including the loans and receivables (including trade receivables, deposits and other receivables, deposits in other financial institutions and bank balances and cash) and financial liabilities (including trade payables, other payables and accruals, amount due to a joint venture and convertible notes), are recorded at amortised cost. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.