



Yuxing InfoTech Investment Holdings Limited

裕興科技投資控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code: 8005

Interim Report
2018

* for identification purposes only

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Yuxing InfoTech Investment Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS FOR THE SIX-MONTH PERIOD

- For the six months and three months ended 30th June 2018, overall revenue of the Group was approximately HK\$164.7 million and HK\$45.8 million respectively, representing a significant decrease of 8.7% and 57.6% respectively in comparison to the same periods of 2017. While the Group recorded the overall gross profit and gross loss of approximately HK\$4.1 million and HK\$1.3 million for the six months and three months ended 30th June 2018 respectively, representing a significant decrease of 57.9% and 115.5% respectively in comparison to the same periods of 2017.
- Loss attributable to owners of the Company for the six months and three months ended 30th June 2018 amounted to approximately HK\$239.2 million and HK\$199.1 million respectively (six months and three months ended 30th June 2017: approximately HK\$10.9 million and HK\$6.5 million respectively).
- Basic loss per share for the six months and three months ended 30th June 2018 were HK13.26 cents and HK11.04 cents respectively (six months and three months ended 30th June 2017: HK0.61 cent and HK0.36 cent respectively).
- Total equity attributable to owners of the Company as at 30th June 2018 was approximately HK\$2,170.7 million (31st December 2017: approximately HK\$2,415.6 million) or net assets per share of HK\$1.2 (31st December 2017: HK\$1.3).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June 2018 (six months ended 30th June 2017: Nil).

INTERIM RESULTS (UNAUDITED)

The board of Directors of the Company (the "Board") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30th June 2018 together with the comparative unaudited figures for the same periods in 2017, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30th June 2018

	Note	For the six months ended 30th June		For the three months ended 30th June	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	3	164,694	180,408	45,841	108,203
Cost of sales		(160,643)	(170,780)	(47,106)	(100,027)
Gross profit/(loss)		4,051	9,628	(1,265)	8,176
Other revenue and net (loss)/income	4	(130,685)	59,174	(150,715)	27,784
Distribution and selling expenses		(7,268)	(7,808)	(3,605)	(3,871)
General and administrative expenses		(54,729)	(58,447)	(31,886)	(29,282)
Other operating expenses		(3,363)	(2,441)	(1,045)	(456)
Net changes in fair value of investment properties		20,627	(3,090)	20,627	(3,090)
Loss from operations		(171,367)	(2,984)	(167,889)	(739)
Finance costs	5	(67,649)	(7,915)	(31,005)	(5,749)
Loss before tax	5	(239,016)	(10,899)	(198,894)	(6,488)
Income tax expenses	6	(160)	(13)	(160)	(13)
Loss for the period		(239,176)	(10,912)	(199,054)	(6,501)
Loss attributable to:					
Owners of the Company		(239,176)	(10,912)	(199,054)	(6,501)
Non-controlling interests		-	-	-	-
		(239,176)	(10,912)	(199,054)	(6,501)
Loss per share	7				
- Basic		(13.26) cents	(0.61) cent	(11.04) cents	(0.36) cent
- Diluted		(13.26) cents	(0.61) cent	(11.04) cents	(0.36) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months and three months ended 30th June 2018

	For the six months ended 30th June		For the three months ended 30th June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss for the period	(239,176)	(10,912)	(199,054)	(6,501)
Other comprehensive (loss)/income:				
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale financial assets	-	143,078	-	74,789
Exchange differences arising on translation of PRC subsidiaries	(5,732)	10,482	(39,557)	7,806
Other comprehensive (loss)/income for the period	(5,732)	153,560	(39,557)	82,595
Total comprehensive (loss)/income for the period	(244,908)	142,648	(238,611)	76,094
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(244,908)	142,631	(238,611)	76,081
Non-controlling interests	-	17	-	13
	(244,908)	142,648	(238,611)	76,094

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2018

		(Unaudited) As at 30th June 2018 HK\$'000	(Audited) As at 31st December 2017 HK\$'000
	Note		
NON-CURRENT ASSETS			
Investment properties	8	601,466	585,131
Property, plant and equipment	8	41,393	34,801
Prepaid lease payments		10,613	10,890
Available-for-sale financial assets	9	–	804,662
Financial assets at fair value through profit or loss	12	<u>686,653</u>	<u>–</u>
		1,340,125	1,435,484
CURRENT ASSETS			
Inventories		35,699	81,997
Loans receivable	10	177,594	125,325
Trade and other receivables	11	130,802	175,545
Prepaid lease payments		367	370
Available-for-sale financial assets	9	–	74,555
Financial assets at fair value through profit or loss	12	326,721	743,463
Financial assets at amortised cost	13	93,810	–
Investment in an insurance contract		–	8,467
Income tax recoverable		684	606
Pledged bank deposits	18	237,064	950,663
Cash and bank balances		<u>203,259</u>	<u>185,290</u>
		1,206,000	2,346,281

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)**As at 30th June 2018*

		(Unaudited)	(Audited)
		As at 30th	As at 31st
		June	December
		2018	2017
<i>Note</i>		HK\$'000	<i>HK\$'000</i>
CURRENT LIABILITIES			
Trade and other payables	15	87,299	215,424
Dividend payables		31	31
Bank and other loans	16	276,963	632,867
Convertible bonds	17	–	456,249
Financial liabilities at fair value through profit or loss	12	–	50,057
Income tax payable		6	307
		364,299	1,354,935
NET CURRENT ASSETS			
		841,701	991,346
TOTAL ASSETS LESS CURRENT LIABILITIES			
		2,181,826	2,426,830
NON-CURRENT LIABILITIES			
Deferred tax liabilities		11,155	11,251
NET ASSETS			
		2,170,671	2,415,579
CAPITAL AND RESERVES			
Share capital	19	45,077	45,077
Reserves		2,125,594	2,370,502
Equity attributable to owners of the Company		2,170,671	2,415,579
Non-controlling interests		–	–
TOTAL EQUITY			
		2,170,671	2,415,579

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2018

	Attributable to owners of the Company										Non-controlling interests HK\$'000	Total equity HK\$'000		
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Share option reserves HK\$'000	Investment revaluation reserves HK\$'000	Convertible bond reserves HK\$'000	Property revaluation reserves HK\$'000	Translation reserves HK\$'000	Other reserves HK\$'000			Retained profits HK\$'000	Total HK\$'000
As at 1st January 2018	45,077	133,249	8,668	234,621	69,439	276,848	37,676	18,835	52,208	-	1,538,958	2,415,579	-	2,415,579
Adjustment on adoption of HKFRS 9	-	-	-	-	-	(276,848)	-	-	-	-	276,848	-	-	-
As at 1st January 2018 (after adjustment)	45,077	133,249	8,668	234,621	69,439	-	37,676	18,835	52,208	-	1,815,806	2,415,579	-	2,415,579
Loss for the period	-	-	-	-	-	-	-	-	-	-	(239,176)	(239,176)	-	(239,176)
Other comprehensive loss:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	(5,732)	-	-	(5,732)	-	(5,732)
Total other comprehensive loss	-	-	-	-	-	-	-	-	(5,732)	-	-	(5,732)	-	(5,732)
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(5,732)	-	(239,176)	(244,908)	-	(244,908)
Transactions with owners:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contributions and distributions	-	-	-	-	(7,140)	-	-	-	-	-	7,140	-	-	-
Share options lapsed	-	-	-	-	-	-	(37,676)	-	-	-	37,676	-	-	-
Redemption of equity component of convertible bonds upon maturity	-	-	-	-	(7,140)	-	(37,676)	-	-	-	44,816	-	-	-
Total transactions with owners	-	-	-	234,621	62,299	-	-	18,835	46,476	-	1,621,446	2,170,671	-	2,170,671
As at 30th June 2018	45,077	133,249	8,668	234,621	62,299	-	-	18,835	46,476	-	1,621,446	2,170,671	-	2,170,671

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (Continued)

For the six months ended 30th June 2018

	Attributable to owners of the Company										Non-controlling interests	Total equity		
	Share capital	Share premium	Statutory reserves	Contributed surplus	Share option reserves	Investment revaluation reserves	Convertible bond reserves	Property revaluation reserves	Translation reserves	Other reserves			Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1st January 2017	45,077	133,249	8,668	234,621	70,350	(24,446)	-	17,264	31,312	(1,113)	1,443,355	1,959,837	1,036	1,959,873
Loss for the period	-	-	-	-	-	-	-	-	-	-	(10,912)	(10,912)	-	(10,912)
Other comprehensive income:														
Change in fair value of available-for-sale financial assets	-	-	-	-	-	143,078	-	-	-	-	-	143,078	-	143,078
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	10,465	-	-	10,465	17	10,482
Total other comprehensive income	-	-	-	-	-	143,078	-	-	10,465	-	-	153,543	17	153,560
Total comprehensive income for the period	-	-	-	-	-	143,078	-	-	10,465	-	(10,912)	142,631	17	142,648
Transactions with owners:														
Contributions and distributions	-	-	-	-	(274)	-	-	-	-	-	274	-	-	-
Share options lapsed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of convertible bonds	-	-	-	-	-	-	37,676	-	-	-	-	37,676	-	37,676
Total transactions with owners	-	-	-	-	(274)	-	37,676	-	-	-	274	37,676	-	37,676
As at 30th June 2017	45,077	133,249	8,668	234,621	70,376	118,632	37,676	17,264	41,777	(1,113)	1,432,717	2,191,144	1,033	2,140,197

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30th June 2018

	For the six months ended 30th June	
	2018	2017
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Cash generated from/(used in) operations	217,665	(199,373)
Income tax paid	(535)	(1,211)
Net cash generated from/(used in) operating activities	217,130	(200,584)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,833)	(353)
Purchase of investment property	–	(109,200)
Decrease in investment in an insurance contract	8,467	–
Decrease in pledged bank deposits with original maturities over three months	713,395	1,638
Interest received	17,778	2,129
(Increase)/Decrease in loans receivable	(55,930)	118,536
Dividend received from listed equity securities	3,108	–
Proceeds from disposal of property, plant and equipment	–	32
Deposit paid for potential acquisition of subsidiaries	–	(218,010)
Net cash generated from/(used in) investing activities	676,985	(205,228)
FINANCING ACTIVITIES		
New bank and other loans raised	50,000	–
Repayment of bank loans	(402,385)	(128,336)
Net proceeds from issue of convertible bonds	–	500,191
Repayments of convertible bonds upon expiry	(504,000)	–
Interest paid	(19,898)	(4,315)
Net cash (used in)/generated from financing activities	(876,283)	367,540
Net increase/(decrease) in cash and cash equivalents	17,832	(38,272)
Cash and cash equivalents at beginning of period	185,290	603,524
Effect of foreign exchange rate changes	137	423
Cash and cash equivalents at end of period	203,259	565,675

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

The Group's unaudited condensed consolidated interim financial statements for the six months ended 30th June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM. These condensed consolidated interim financial statements are unaudited but have been reviewed by the Company's audit committee.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31st December 2017. They have been prepared on the historical cost basis, except for investment properties, financial assets and liabilities at fair value through profit or loss, which are measured at fair value.

The accounting policies used in preparing these unaudited condensed consolidated interim financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31st December 2017, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1st January 2018 as described below.

Annual improvements to HKFRSs
Amendments to HKAS 40
Amendments to HKFRS 2

HKFRS 9
HKFRS 15
HK(IFRIC) – Int 22

2014-2016 Cycle: HKFRS 1 and HKAS 28
Transfers of Investment Property
Classification and Measurement of Share-based
Payment Transactions
Financial Instruments
Revenue from Contracts with Customers
Foreign Currency Transactions and Advance
Consideration

The adoption of these amendments to HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current or prior periods except for HKFRS 9.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

1 Basis of preparation (Continued)

HKFRS 9: Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

1 Basis of preparation (Continued)

HKFRS 9: Financial instruments (Continued)

On 1st January 2018, the Directors assessed which business models should be applied to the financial assets and financial liabilities held by the Group on the initial application of HKFRS 9 and has classified its financial instruments into the appropriate HKFRS 9 categories as follows:

	Note	Measurement category	
		Original (HKAS 39)	New (HKFRS 9)
Financial assets			
Listed equity securities held for trading		Fair value through profit or loss ("FVPL")	FVPL
Private investment funds held for trading		FVPL	FVPL
Unlisted debt securities held for trading		FVPL	FVPL
Money market funds designated upon initial recognition		FVPL	FVPL
Listed equity securities not held for trading	(a)	Available-for-sale, at fair value	FVPL
Private investment funds not held for trading	(b)	Available-for-sale, at fair value	FVPL
Unlisted equity securities not held for trading		Available-for-sale, at cost	FVPL
Loans receivable	(c)	Amortised cost	Amortised cost
Trade and other receivables	(c)	Amortised cost	Amortised cost
Cash and cash equivalents	(c)	Amortised cost	Amortised cost
Financial liabilities			
Derivative financial instruments: Early redemption option		FVPL	FVPL

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

1 Basis of preparation (Continued)

HKFRS 9: Financial instruments (Continued)

Notes:

- (a) The accumulated investment revaluation reserves of HK\$139,722,000 at 1st January 2018 relevant to these investments has been reclassified to retained profits.
- (b) The accumulated investment revaluation reserves of HK\$137,126,000 at 1st January 2018 relevant to these investments has been reclassified to retained profits.
- (c) Impairment based on expected credit loss model on these financial assets has no significant financial impact.

2 Fair value measurements

In the opinion of the Directors, the carrying amounts of financial assets and liabilities approximate their fair values.

The following presents the assets/liabilities measured at fair value or required to disclose their fair value in these unaudited condensed consolidated interim financial statements on a recurring basis at 30th June 2018 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 (lowest level): unobservable inputs for the assets or liabilities.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2 Fair value measurements (Continued)

Assets/(Liabilities) measured at fair value on a recurring basis

	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
As at 30th June 2018				
Investment properties	601,466	–	137,444	464,022
Financial assets at fair value through profit or loss	<u>1,013,374</u>	<u>572,201</u>	<u>161,834</u>	<u>279,339</u>
	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
As at 31st December 2017				
Investment properties	585,131	–	130,650	454,481
Available-for-sale financial assets	801,217	276,590	275,486	249,141
Financial assets at fair value through profit or loss	743,463	566,267	177,196	–
Financial liabilities at fair value through profit or loss	<u>(50,057)</u>	<u>–</u>	<u>–</u>	<u>(50,057)</u>

During the six months ended 30th June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 fair value measurements.

During the year ended 31st December 2017, a private investment fund classified as available-for-sale financial asset was transferred out from Level 3 to Level 2 fair value measurements, as a result of the listing of the underlying investment on the Stock Exchange on 28th September 2017.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2 Fair value measurements (Continued)

Valuation techniques and inputs in Level 2 fair value measurement

(a) Investment properties

The investment properties situated in the People's Republic of China (other than Hong Kong, Taiwan and Macau) (the "PRC") and Hong Kong of approximately HK\$137,444,000 were revalued by Roma Appraisals Limited, an independent professional qualified valuer, on the market value basis using direct comparison approach.

(b) Financial assets at fair value through profit or loss: Private investment funds

The fair value of two private investment funds mainly invested in listed equity securities and cryptocurrencies are valued based on the net asset value of each fund unit quoted by the investment managers based on quoted prices of the underlying investments i.e. listed equity securities in an active market and cryptocurrencies on trading platforms with insignificant adjustments.

Movements in Level 3 fair value measurements

The details of the movements of the recurring fair value measurements categorised as Level 3 for the six months ended 30th June 2018 and 2017 are shown as follows:

	Investment properties HK\$'000	Available- for-sale financial assets HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000
As at 1st January 2018	454,481	249,141	-	(50,057)
Exchange realignment	(3,746)	-	-	-
Reclassification from available-for-sale financial assets at fair value to FVPL on adoption of HKFRS 9	-	(249,141)	249,141	-
Reclassification from available-for-sale financial assets at cost to FVPL on adoption of HKFRS 9	-	-	78,000	-
Net change in fair value recognised in profit or loss	13,287	-	(47,802)	4,567
Derecognition upon redemption of convertible bonds	-	-	-	45,490
As at 30th June 2018	464,022	-	279,339	-

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2 Fair value measurements (Continued)

Movements in Level 3 fair value measurements (Continued)

	Investment properties HK\$'000	Available- for-sale financial assets HK\$'000	Financial assets at fair value through profit or loss HK\$'000	Financial liabilities at fair value through profit or loss HK\$'000
As at 1st January 2017	-	71,446	-	-
Purchases	-	-	-	(55,393)
Net change in fair value recognised in				
– profit or loss	-	-	-	(778)
– other comprehensive income	-	3,282	-	-
	<u>-</u>	<u>74,728</u>	<u>-</u>	<u>(56,171)</u>
As at 30th June 2017	<u>-</u>	<u>74,728</u>	<u>-</u>	<u>(56,171)</u>

Valuation techniques and inputs in Level 3 fair value measurement

(a) Investment properties

The investment property situated in the United States of approximately HK\$106,314,000 was stated at fair value as at 30th June 2018 as estimated by the Directors with reference to the valuation provided by Vigers Appraisal & Consulting Limited (“Vigers”), an independent professional qualified valuer, which was performed on 31st December 2017 on the market value basis using direct comparison approach with unobservable inputs. In the opinion of the Directors, the change in fair value of the Group’s investment property situated in the United States during the period from 31st December 2017 to 30th June 2018 did not have material impact to the results of the Group.

As at 30th June 2018, if the market condition of price per square foot had been 1% higher/lower while all other variables were held constant, the Group’s net loss would be decreased by approximately HK\$1,248,000 or increased by approximately HK\$1,872,000 respectively (30th June 2017: HK\$Nil).

The investment property situated in the PRC of approximately HK\$357,708,000 was revalued by Vigers on the market value basis of capitalisation of net rental income derived from the existing tenancy with allowance for the reversionary income potential. The significant unobservable input used is the capitalisation rate ranging from 5.75% to 6.25%.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2 Fair value measurements (Continued)

Valuation techniques and inputs in Level 3 fair value measurement (Continued)

(a) *Investment properties (Continued)*

As at 30th June 2018, if the capitalisation rate had been 1% higher/lower while all other variables were held constant, the Group's net loss would be increased by approximately HK\$45,522,000 or decreased by approximately HK\$55,856,000 respectively (30th June 2017: HK\$Nil).

(b) *Financial assets at fair value through profit or loss: Private investment funds*

The fair value of the private investment fund in level 3 is based on the net asset value of the fund unit quoted by the investment manager based on the fair value of the underlying investment i.e. unlisted convertible bonds which are valued by an independent professional qualified valuer with appropriate qualification and experience in the valuation of similar financial instrument. The fair value of the unlisted convertible bonds are determined at the end of the reporting period using Binomial Option Pricing Model. The significant unobservable input used in the fair value measurement is the expected volatility of 63%.

As at 30th June 2018, if the expected volatility had been 5% higher/lower while all other variables were held constant, the Group's net loss would be decreased by approximately HK\$288,000 or increased by approximately HK\$105,000 respectively (30th June 2017:HK\$Nil).

(c) *Financial assets at fair value through profit or loss: Unlisted equity securities*

The fair value of the unlisted equity securities without an active market classified in Level 3 was valued by Vigers using direct comparison approach with unobservable inputs. The significant unobservable input used in the fair value measurement is the expected assets-based multiples (e.g. enterprise value to assets) of 0.83x.

As at 30th June 2018, if the expected assets-based multiples had been 10% higher/lower while all other variables were held constant, the Group's net loss would be decreased/increased by approximately HK\$21,600,000 respectively (30th June 2017: HK\$Nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2 Fair value measurements (Continued)

Valuation techniques and inputs in Level 3 fair value measurement (Continued)

- (d) *Financial liabilities at fair value through profit or loss: Derivative component in convertible bonds*

The fair value of the derivative component in convertible bonds classified in Level 3 was valued by Vigers using the Binomial Option Pricing Model at the end of each reporting period. During the period, the significant unobservable input used in the fair value measurement is the expected volatility of 45%.

The Group redeemed all the convertible bonds and derecognised early redemption options on the bond maturity date (i.e. 20th June 2018).

3 Revenue and segment information

During the end of the 2017 reporting period, management had decided to segregate the IDC segment from the other operations because of the increasing importance of the leasing out of properties used as internet data centre ("IDC") to the Group's total revenue and assets. Certain comparative figures of the segment information have been restated to conform with current period's presentation.

The information home appliances segment is principally engaged in manufacture, sales and distribution of information home appliances and complementary products to consumer markets.

The investing segment comprises trading of securities and investing in financial instruments.

The leasing segment comprises leasing out of properties.

The IDC segment comprises construction, operation and leasing out of properties used as IDC.

Other operations segment of the Group mainly comprises trading of miscellaneous materials.

For the purpose of assessing the performance of the operating segments and allocating resources between segments, the executive Directors assess segment profit or loss before tax without allocation of interest income from bank deposits, finance costs, Directors' and chief executive's emoluments, head office staff salaries, legal and professional fees and other corporate administrative costs and the basis of preparing such information is consistent with that of the unaudited condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3 Revenue and segment information (Continued)

All assets are allocated to reportable segments other than head office bank balances and other unallocated financial and corporate assets which are managed on a group basis. All liabilities are allocated to reportable segments other than unallocated head office and corporate liabilities which are managed on a group basis.

Inter-segment transactions are charged at prevailing market rates.

Business segments

Revenue represents net invoiced value of goods sold to customers less returns and allowance. An analysis of the Group's revenue, other revenue and net (loss)/income, net changes in fair value of investment properties, segment results and segment assets and liabilities by business segments is as follows:

	For the six months ended 30th June 2018						
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	164,694	-	-	-	-	-	164,694
OTHER REVENUE AND NET LOSS	2,087	(169,524)	4,872	14,764	214	(900)	(148,487)
NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES	-	-	7,340	13,287	-	-	20,627
Segment revenue	<u>166,781</u>	<u>(169,524)</u>	<u>12,212</u>	<u>28,051</u>	<u>214</u>	<u>(900)</u>	<u>36,834</u>
RESULTS							
Segment results	<u>(28,658)</u>	<u>(174,588)</u>	<u>9,109</u>	<u>25,195</u>	<u>(141)</u>	-	(169,083)
Unallocated corporate income							13,928
Interest income from bank deposits							3,874
Other unallocated corporate expenses							<u>(20,086)</u>
Finance costs							<u>(171,367)</u> <u>(67,649)</u>
Loss before tax							(239,016)
Income tax expenses							<u>(160)</u>
Loss for the period							<u>(239,176)</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3 Revenue and segment information (Continued)

Segment assets and liabilities

The following table presents segment assets and liabilities of the Group's business segments as at 30th June 2018 and 31st December 2017:

	As at 30th June 2018						
	Information home appliances	Investing	Leasing	IDC	Other operations	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Segment assets	153,258	1,535,638	148,554	486,837	563	-	2,324,850
Unallocated corporate assets						221,275	<u>221,275</u>
Consolidated total assets							<u><u>2,546,125</u></u>
LIABILITIES							
Segment liabilities	63,052	271,944	17,681	17,159	1,359	-	371,195
Unallocated corporate liabilities						4,259	<u>4,259</u>
Consolidated total liabilities							<u><u>375,454</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3 Revenue and segment information (Continued)

Segment assets and liabilities (Continued)

	As at 31st December 2017						Consolidated HK\$'000
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	
ASSETS							
Segment assets	338,800	2,617,331	142,677	469,478	596	-	3,568,882
Unallocated corporate assets						212,883	<u>212,883</u>
Consolidated total assets							<u><u>3,781,765</u></u>
LIABILITIES							
Segment liabilities	205,971	607,893	18,290	18,258	1,585	-	851,997
Unallocated corporate liabilities						514,189	<u>514,189</u>
Consolidated total liabilities							<u><u>1,366,186</u></u>

Geographical information

The Group operates in the following principal geographical areas: the PRC, Hong Kong, Australia and other overseas markets.

The following table sets out information about the geographical location of (a) the Group's revenue from external customers; and (b) other revenue and net (loss)/income other than unallocated corporate income and interest income from bank deposits. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of other revenue and net (loss)/income is based on the location at which other revenue and net (loss)/income is generated.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3 Revenue and segment information (Continued)

Geographical information (Continued)

(a) Revenue from external customers

	For the six months ended 30th June	
	2018 HK\$'000	2017 HK\$'000
The PRC	7,991	17,968
Hong Kong	29,768	88,500
Australia	108,904	62,041
Other overseas markets	18,031	11,899
	<u>164,694</u>	<u>180,408</u>

(b) Other revenue and net (loss)/income

	For the six months ended 30th June 2018					
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
The PRC	2,087	(26,878)	3,024	14,764	214	(6,789)
Hong Kong	—	(142,646)	948	—	—	(141,698)
	<u>2,087</u>	<u>(169,524)</u>	<u>3,972</u>	<u>14,764</u>	<u>214</u>	<u>(148,487)</u>

	For the six months ended 30th June 2017 (Restated)					
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
The PRC	(200)	21,076	1,933	—	32	22,841
Hong Kong	893	27,000	948	—	—	28,841
	<u>693</u>	<u>48,076</u>	<u>2,881</u>	<u>—</u>	<u>32</u>	<u>51,682</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

4 Other revenue and net (loss)/income

	For the six months ended 30th June		For the three months ended 30th June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Other revenue				
Dividend income from listed securities	3,108	–	2,784	–
Interest income from bank deposits	3,874	2,840	1,720	995
Interest income from loans receivable	6,858	4,027	3,644	771
Interest income from debt investments at amortised cost	1,045	–	455	–
Imputed interest income from investment in an insurance contract	–	85	–	43
Rental income from investment properties	18,679	2,881	9,341	1,549
	<u>33,564</u>	<u>9,833</u>	<u>17,944</u>	<u>3,358</u>
Other net (loss)/income				
Foreign exchange gain, net	11,229	12,072	2,406	6,938
Fair value losses on financial assets at fair value through profit or loss	(230,691)	–	(219,977)	–
Fair value gains/(losses) on financial liabilities at fair value through profit or loss	4,567	(778)	–	(778)
Net unrealised gains/(losses) on financial assets at fair value through profit or loss				
– held for trading	–	17,878	–	12,441
– designated upon initial recognition	–	28	–	(15)
Net gains on disposal of financial assets at fair value through profit or loss				
– held for trading	–	16,715	–	4,812
– designated upon initial recognition	–	1,021	–	463
Gain on derecognition of financial liabilities	45,490	–	45,490	–
Compensation income	3,089	–	3,089	–
Reversal of impairment loss on trade and other receivables	–	10	–	–
Sundry income	2,067	2,395	333	565
	<u>(164,249)</u>	<u>49,341</u>	<u>(168,659)</u>	<u>24,426</u>
	<u>(130,685)</u>	<u>59,174</u>	<u>(150,715)</u>	<u>27,784</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

5 Loss before tax

Loss before tax has been arrived at after charging the following items:

	For the six months ended 30th June		For the three months ended 30th June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finance costs				
Borrowing costs for bank and other loans	4,819	4,315	1,438	2,149
Imputed interest expenses on convertible bonds (note 17)	62,830	3,600	29,567	3,600
	<u>67,649</u>	<u>7,915</u>	<u>31,005</u>	<u>5,749</u>
Other items				
Write-down of inventories	2,556	2,390	1,874	55
Amortisation of prepaid lease payments	190	175	95	88
Depreciation of property, plant and equipment	3,063	3,257	1,488	1,615
	<u>3,063</u>	<u>3,257</u>	<u>1,488</u>	<u>1,615</u>

6 Income tax expenses

The taxation charged to profit or loss represents:

	For the six months ended 30th June		For the three months ended 30th June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC enterprise income tax	160	13	160	13
	<u>160</u>	<u>13</u>	<u>160</u>	<u>13</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

6 Income tax expenses (Continued)

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rate of 25% on the estimated assessable profits for the six months and three months ended 30th June 2018 and 2017 based on existing legislation, interpretations and practices in respect thereof. An operating subsidiary of the Company has been officially designated by the local tax authority as “New and High Technology Enterprise” which is eligible to enjoy the preferential tax rate of 15% for the six months and three months ended 30th June 2018 (six months and three months ended 30th June 2017: 15%). Another operating subsidiary of the Company has been officially designated by the local tax authority as “Participant of Development in Western China” which is exempted for part of PRC enterprise income tax. As a result, the effective tax rate for the subsidiary is 9% for the six months and three months ended 30th June 2018 (six months and three months ended 30th June 2017: 9%).

No Hong Kong Profits Tax has been provided for the six months and three months ended 30th June 2018 and 2017 as the Group did not have any assessable profit from Hong Kong for both periods.

7 Loss per share

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	For the six months ended 30th June		For the three months ended 30th June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss attributable to owners of the Company	<u>(239,176)</u>	<u>(10,912)</u>	<u>(199,054)</u>	<u>(6,501)</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

7 Loss per share (Continued)

	For the six months ended 30th June		For the three months ended 30th June	
	2018 '000	2017 '000	2018 '000	2017 '000
Issued ordinary shares at 1st January	1,803,089	1,803,089	-	-
Issued ordinary shares at 1st April	-	-	1,803,089	1,803,089
Weighted average number of ordinary shares for basic loss per share	1,803,089	1,803,089	1,803,089	1,803,089
Effects of dilutive potential ordinary shares:				
Exercise of share options	N/A	N/A	N/A	N/A
Weighted average number of ordinary shares for diluted loss per share	1,803,089	1,803,089	1,803,089	1,803,089
Loss per share:				
- Basic	(13.26) cents	(0.61) cent	(11.04) cents	(0.36) cent
- Diluted (Note)	(13.26) cents	(0.61) cent	(11.04) cents	(0.36) cent

Note:

Diluted loss per share is the same as the basic loss per share for the six months and three months ended 30th June 2018 because the potential ordinary shares arising from the outstanding share options under the Company's share option scheme have an anti-dilutive effect on the basic loss per share during the periods.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

8 Investment properties/property, plant and equipment

During the period, the Group expended HK\$Nil and approximately HK\$9,833,000 (six months ended 30th June 2017: approximately HK\$109,200,000 and HK\$353,000) on the acquisition of investment properties and property, plant and equipment for the expansion of the Group's operations respectively.

9 Available-for-sale financial assets

	30th June 2018 HK\$'000	31st December 2017 HK\$'000
At fair value:		
Equity securities listed in Hong Kong	–	276,590
Private investment funds	–	524,627
	–	801,217
At cost:		
Unlisted equity securities outside Hong Kong	–	78,000
Total available-for-sale financial assets	–	879,217
Less: Current portion	–	(74,555)
Non-current portion	–	804,662

These investments were reclassified as financial assets at fair value through profit or loss upon adoption of HKFRS 9 on 1st January 2018, with details set out in note 12.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10 Loans receivable

	30th June 2018 HK\$'000	31st December 2017 HK\$'000
Loans receivable from third parties:		
– due within one year	<u>177,594</u>	<u>125,325</u>

The loans receivable comprise:

- (i) RMB101,000,000 (equivalent to approximately HK\$119,796,000) (31st December 2017: approximately RMB104,759,000, equivalent to approximately HK\$125,325,000) loan to an independent third party borrower (the "Borrower 1"), which is secured by a personal guarantee provided by a major shareholder of Borrower 1. The loan is interest-bearing at 8% per annum and repayable in one year from the first drawdown date. During the period, accrued interest of approximately HK\$9,229,000 was repaid and the maturity date was extended by one year to 16th May 2019.

Details of the loan and extension of loan to Borrower 1 were disclosed in the Company's announcements dated 17th May 2017, 17th May 2018 and note 22 to the consolidated financial statements in the 2017 annual report.

- (ii) Approximately HK\$51,855,000 (31st December 2017: HK\$Nil) loan to an independent third party borrower (the "Borrower 2") which was unsecured, interest-bearing at 8% per annum and fully repaid subsequent to the end of the reporting period.
- (iii) Approximately RMB5,011,000 (equivalent to approximately HK\$5,943,000) (31st December 2017: HK\$Nil) loan to an independent third party borrower (the "Borrower 3") which was unsecured, interest-bearing at 8% per annum and fully repaid subsequent to the end of the reporting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

11 Trade and other receivables

		30th June	31st December
		2018	2017
	Note	HK\$'000	HK\$'000
Trade receivables	(a)	41,628	130,499
Less: Impairment loss in respect of trade receivables		(2,431)	(2,442)
		39,197	128,057
Other receivables, net of impairment loss	(b)	78,344	8,249
Prepayments and deposits		13,261	39,239
		130,802	175,545

Notes:

- (a) The Group grants its trade customers an average credit period from 30 days to 18 months (31st December 2017: 30 days to 18 months). The ageing analysis of trade receivables (net of impairment loss) by invoice date at the end of the reporting period is as follows:

	30th June	31st December
	2018	2017
	HK\$'000	HK\$'000
0 – 30 days	13,727	90,176
31 – 60 days	13,878	31,422
61 – 90 days	2,321	525
Over 90 days	9,271	5,934
	39,197	128,057

- (b) As at 30th June 2018, included in other receivables are (i) consideration receivable of approximately HK\$64,495,000 on the disposal of a private investment fund and (ii) receivable from the former chief executive officer in respect of the redeemed funds from the pension scheme pursuant to his service agreement of approximately HK\$8,467,000.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12 Financial assets/(liabilities) at fair value through profit or loss

	Note	30th June 2018		31st December 2017	
		Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Equity securities listed in Hong Kong	(a)	423,307	–	112,512	–
Equity securities listed outside Hong Kong	(a)	128,353	–	144,597	–
Unlisted equity securities outside Hong Kong	(c)	67,689	–	–	–
Money market funds	(a)	20,541	–	309,158	–
Private investment funds	(b)	373,484	–	59,946	–
Unlisted debt securities		–	–	117,250	–
		<u>1,013,374</u>	<u>–</u>	<u>743,463</u>	<u>–</u>
Early redemption option	17	–	–	–	(50,057)
		<u>–</u>	<u>–</u>	<u>–</u>	<u>(50,057)</u>
Total financial assets/ (liabilities) at fair value through profit or loss		1,013,374	–	743,463	(50,057)
Less: Current portion		<u>(326,721)</u>	<u>–</u>	<u>(743,463)</u>	<u>50,057</u>
Non-current portion		<u>686,653</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

- (a) The fair value of listed equity securities and money market funds are based on quoted market prices in active markets as at the end of the reporting period.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12 Financial assets/(liabilities) at fair value through profit or loss (Continued)

Notes: (Continued)

- (b) Included in the private investment funds were three private investment funds, one of which invested in listed equity securities with carrying amount of approximately HK\$76,936,000. The remaining two private investment funds, one of which invested in unlisted convertible bonds issued by a listed company in Hong Kong with carrying amount of approximately HK\$211,650,000 and another one invested in cryptocurrencies and unlisted equity investment with carrying amount of approximately HK\$84,898,000 as at 30th June 2018.
- (c) The investment in unlisted equity securities outside Hong Kong was not held for trading. The valuation techniques and inputs applied for fair value measurement have been disclosed in note 2.

13 Financial assets at amortised cost

	30th June 2018 HK\$'000	31st December 2017 HK\$'000
Debt investments	93,810	–

The debt investments offer guaranteed annualised return with reference to quoted US Treasury Bills and Notes rates and have maturity periods of three months.

14 Investment Portfolio

The Group discloses its ten largest investments, including individual investments with value exceeding 5% of the Group's total assets, as at 30th June 2018 and 31st December 2017 with brief description of the investee companies as follows:

As at 30th June 2018

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HKD'000	Carrying amount HKD'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 30th June 2018 HKD'000	Dividend received for the six months ended 30th June 2018 HKD'000	Classification of financial assets
Listed equity securities									
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		4,000,000	0.05%	163,816	288,800	124,984	-	FVPL
0880	SJM Holdings Limited		4,827,000	0.09%	44,755	47,112	2,357	724	FVPL
002199	Zhejiang East Crystal Electronic Co., Ltd.		3,332,000	1.37%	68,885	37,426	(31,459)	-	FVPL
601238	Guangzhou Automobile Group Co., Ltd. (A shares)		2,805,973	0.04%	52,222	35,530	(16,692)	954	FVPL
600519	Kweichow Moutai Co., Ltd.		29,999	0.00%	29,020	25,000	(4,020)	362	FVPL
Unlisted debt securities									
	US Treasury Enhanced Yield Fiduciary Notes	(i)	N/A	N/A	93,600	93,810	210	-	Amortised cost
Private investment funds									
	Avalon Global Fixed Income Fund LP ("Avalon Fund")	(ii)	N/A	N/A	199,500	211,650	12,150	-	FVPL
	Sun Global Restructuring-led Partnership Fund LP ("Sun Fund")	(iii)	N/A	N/A	66,500	84,898	18,398	-	FVPL
	Crcjazi Holdings Limited	(iv)	1,552,700	4.97%	78,000	76,936	(1,064)	-	FVPL
Unlisted equity securities									
	APAL Holdings Limited ("APAL")	(v)	100,000,000	9.47%	78,000	67,689	(10,311)	-	FVPL

The above investments represent in aggregate over 87.5% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below or approximately 1% of the Group's total assets as at 30th June 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

1.4 Investment Portfolio (Continued)

As at 31st December 2017

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HKD'000	Carrying amount HKD'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 30th June 2017 HKD'000	Dividend received for the six months ended 30th June 2017 HKD'000	Classification of financial assets
Listed equity securities									
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		4,000,000	0.05%	163,816	325,400	138,486	-	Available-for-sale, at fair value/FVPL
002199	Zhejiang East Crystal Electronic Co., Ltd.		3,392,414	1.39%	70,738	62,296	-	-	FVPL
Unlisted debt securities									
	US Treasury Enhanced Yield Fiduciary Notes	(i)	N/A	N/A	117,000	117,250	307	-	FVPL
Money market funds									
	China Minsheng Bank Corp., Ltd		N/A	N/A	281,732	282,048	29	-	FVPL
Private investment funds									
	Avalon Fund	(ii)	N/A	N/A	199,500	249,141	-	-	Available-for-sale, at fair value
	Cicjiazi Holdings Limited	(iv)	1,552,700	4.97%	78,000	101,681	(3,272)	-	Available-for-sale, at fair value
	Sun Fund	(iii)	N/A	N/A	50,000	99,250	-	-	Available-for-sale, at fair value
	MaxHealth Great China Fixed Income Fund II LP		N/A	7.72%	60,000	74,555	(10,985)	-	Available-for-sale, at fair value
	Minsheng Wealth Management Co., Ltd.		N/A	N/A	58,261	59,946	-	-	FVPL
Unlisted equity securities									
	APAL	(v)	100,000,000	9.47%	78,000	78,000	-	-	Available-for-sale, at cost

The above investments represent in aggregate over 89.3% in value of the Group's investments. Apart from the ten largest investments listed above, the Group also held various other individual investments with value representing below or approximately 1% of the Group's total assets as at 31st December 2017.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14 Investment Portfolio (Continued)

Notes:

- (i) US Treasury Enhanced Yield Fiduciary Notes is issued by UBS (Luxembourg) Issuer SA under its EUR10,000,000,000 Fiduciary Note Programme. The proceeds are mainly invested into US Treasury Bills, US Treasury Notes and 91-Day Bills as auctioned by the US Department of the Treasury. As at 30th June 2018, the fair value of the investment in US Treasury Enhanced Yield Fiduciary Note is approximately HK\$93,810,000 (31st December 2017: approximately HK\$117,250,000) by reference to the quoted US Treasury Bills and US Treasury Notes rates using discounted cash flow model.
- (ii) Avalon Fund is a Cayman Islands exempted limited partnership with the principal purpose of primarily subscribing for convertible bonds of the portfolio company and temporary investments. The Avalon Fund may also achieve capital appreciation through equity and equity-related investments in certain industries. The partnership is managed by the general partner, MaxWealth Investment Management Limited, which holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for two years unless dissolution of the partnership. The objective of the partnership is to produce attractive returns on the capital from the partnership while managing investment risk. As at 30th June 2018, the fair value of the partnership is approximately HK\$272,540,000 (31st December 2017: approximately HK\$502,575,000) by reference to the valuation on the convertible bonds of the portfolio company from the investment manager using Binomial Option Pricing Model. For details of the Avalon Fund, please refer to the announcements of the Company dated 24th August 2017 and 6th September 2017.
- (iii) iSun Fund is a Cayman Islands exempted limited partnership, with the principal objective of primarily target investments in public or private companies or digital assets (such as cryptocurrencies) in the data centre, fintech or high tech (software and hardware) sectors. The partnership is managed by the general partner, iSun GP I Limited, which holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for five years unless dissolution of the partnership. The objective of the partnership is to produce attractive returns on the capital from the partnership while managing investment risk. As at 30th June 2018, the fair value of the partnership is approximately HK\$91,030,000 (31st December 2017: approximately HK\$115,666,000) by reference to the quoted prices of the underlying investments and the valuation on the unlisted equity securities from the investment manager using discounted cash flows model. For details of the iSun Fund, please refer to the announcements of the Company dated 25th July 2017 and 9th February 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14 Investment Portfolio (Continued)

Notes: (Continued)

- (iv) The private investment fund administrated by Ciccjazi Holdings Limited solely invests in equity shares of a listed company in Hong Kong. As at 30th June 2018, the fair value of the private investment fund was approximately HK\$1,548,438,000 (31st December 2017: approximately HK\$2,165,625,000) by reference to the quoted prices of the underlying investments.
- (v) APAL is an exempt company incorporated in the Cayman Islands with limited liability. APAL and its subsidiaries are principally engaged in the business of global aircraft leasing, aircraft trading, securitised aircraft leasing financial products, aircraft parts trading, maintenance of aircraft, dismantling aircraft and other related consulting services. As at 30th June 2018, the fair value of the unlisted equity securities was approximately HK\$714,807,000 by reference to the valuation provided by an independent professional qualified valuer using direct comparison approach with unobservable inputs.

15 Trade and other payables

	30th June 2018 HK\$'000	31st December 2017 HK\$'000
Trade payables (Note)	23,954	133,203
Other payables	31,137	47,934
Accruals	32,208	34,287
	87,299	215,424

Note:

The ageing analysis of trade payables by invoice date at the end of the reporting period is as follows:

	30th June 2018 HK\$'000	31st December 2017 HK\$'000
0 – 30 days	5,538	58,290
31 – 60 days	4,495	50,122
61 – 90 days	8,172	14,566
Over 90 days	5,749	10,225
	23,954	133,203

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

16 Bank and other loans

		30th June 2018	31st December 2017
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Current and secured			
Bank loans with repayment on demand clause	(a)	265,000	215,000
Other loan with a repayment on demand clause	(b)	6,882	64,813
Term loans with repayment on demand clause	(a)	5,081	353,054
		<u>276,963</u>	<u>632,867</u>

Notes:

- (a) As at 30th June 2018, the bank loans carried variable interest rates ranging from 2.44% to 3.01% (31st December 2017: 2.01% to 4.35%) per annum. The bank loans are secured by the assets of the Group as set out in note 18.
- (b) This represented a margin loan from a securities broker carried interest rates ranging from 6.4% to 7.6% (31st December 2017: 6.4% to 9%) per annum, subject to periodic review. The loan is secured by listed securities held by the securities broker of approximately RMB40,036,000 (equivalent to approximately HK\$47,487,000) (31st December 2017: funds of approximately RMB73,000 (equivalent to approximately HK\$87,000) and listed securities of approximately RMB108,783,000 (equivalent to approximately HK\$130,139,000)). According to the margin loan agreement, the pledged assets have to be maintained at certain ratio of the loan amount.

17 Convertible bonds

On 20th June 2017 (the "Bond Issue Date"), the Company issued convertible bonds in the principal amount of HK\$504,000,000 (the "Convertible Bonds") to an independent third party. The Convertible Bonds were interest-bearing at the rate of 6% per annum. Such interest was accrued at the outstanding principal amount of the Convertible Bonds and would only be payable by the Company to the bondholder once every six months from the Bond Issue Date if the Convertible Bonds were neither converted during the conversion period nor redeemed prior to 20th June 2018 (the "Bond Maturity Date"). The Convertible Bonds can be converted into maximum 360,000,000 ordinary shares of the Company at a conversion price of HK\$1.4 per share (subject to adjustments). The conversion period commenced from the 180th day after the Bond Issue Date and ended on the five business days prior to the Bond Maturity Date (the "Conversion Period").

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

17 Convertible bonds (Continued)

Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled, the Company would redeem all the outstanding Convertible Bonds held by the bondholder on the Bond Maturity Date at an amount equal to the outstanding principal amount of the Convertible Bonds together with accrued and unpaid interest on the Bond Maturity Date.

Early redemption at the options of the Company and the bondholder

The Company at any time three months after the Bond Issue Date and the bondholder at any time six months after the Bond Issue Date may give early redemption notice to each other to redeem the Convertible Bonds in full or in part held by the bondholder at an amount equal to the redeemed principal amount of the Convertible Bonds together with the relevant 6% accrued and unpaid interest up to the Bond Maturity Date.

At initial recognition, the Convertible Bonds were separated into a liability component, comprising straight debt component of the bonds and embedded derivatives (i.e. early redemption options by the Company and the bondholder) ("Derivative Component"), and an equity component representing the conversion options of the bondholder. As the early redemption options were considered not closely related to the host contract, they were separately recognised at fair value and classified as financial liabilities at fair value through profit or loss under current liabilities. The equity component was recognised in the convertible bond reserves, whereas the debt component was recognised at amortised cost under current liabilities. The effective interest rate of the liability component on initial recognition was 29.6% per annum and was subsequently carried at amortised cost.

During the period, the Convertible Bonds were redeemed at the redemption price equal to the outstanding principal amount of HK\$504,000,000 on the Bond Maturity Date. Gain on derecognition of financial liabilities of approximately HK\$45,490,000 was recognised in the consolidated income statement and the convertible bond reserves of approximately HK\$37,676,000 was released to retained profits.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

17 Convertible bonds (Continued)

The movements of the liability component of the Convertible Bonds for the periods are set out below:

	HK\$'000
Debt component, classified as financial liability at amortised cost	
As at 1st January 2017	–
Nominal value of the Convertible Bonds at Bond Issue Date	504,000
Fair value of Derivative Component at Bond Issue Date	(55,393)
Equity component at Bond Issue Date	(37,676)
Issue costs attributable to the debt component	<u>(3,809)</u>
Fair value of debt component at Bond Issue Date	407,122
Imputed interest expenses	64,288
Repaid interest	<u>(15,161)</u>
As at 31st December 2017 and as at 1st January 2018	456,249
Imputed interest expenses	62,830
Repaid interest	(15,079)
Redemption of Convertible Bonds	<u>(504,000)</u>
As at 30th June 2018	<u>–</u>
Derivative Component, classified as financial liabilities at fair value through profit or loss	
As at 1st January 2017	–
Fair value at Bond Issue Date	55,393
Fair value change	<u>(5,336)</u>
As at 31st December 2017 and as at 1st January 2018	50,057
Fair value change	(4,567)
Derecognition upon redemption of Convertible Bonds	<u>(45,490)</u>
As at 30th June 2018	<u>–</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

17 Convertible bonds (Continued)

The fair values of the Derivative Component at the end of each reporting period were determined with reference to professional valuation conducted by an independent professional qualified valuer using Binomial Option Pricing Model with unobservable market data.

18 Pledge of assets

The Group had pledged the following assets to secure the loan facilities and Convertible Bonds:

	30th June 2018	31st December 2017
	HK\$'000	HK\$'000
(a) Investment properties	82,313	73,966
(b) Buildings	5,245	5,440
(c) Leasehold property	2,088	2,138
(d) Prepaid lease payments	1,844	1,891
(e) Available-for-sale financial assets	–	276,590
(f) Financial assets at fair value through profit or loss	47,487	296,199
(g) Financial assets at amortised cost	93,810	–
(h) Bank deposits	237,064	1,030,521

19 Share Capital

	Number of shares		Amount	
	30th June 2018	31st December 2017	30th June 2018	31st December 2017
	'000	'000	HK\$'000	HK\$'000
Authorised:				
At beginning and end of period/year				
Ordinary shares of HK\$0.025 each	<u>8,000,000</u>	<u>8,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning and end of period/year				
Ordinary shares of HK\$0.025 each	<u>1,803,089</u>	<u>1,803,089</u>	<u>45,077</u>	<u>45,077</u>

20 Approval of the unaudited condensed consolidated interim financial statements

The unaudited condensed consolidated interim financial statements were approved by the Board on 9th August 2018.

RESERVES

Movements in the reserves of the Group during the six months ended 30th June 2018 (the "Period") are set out in the unaudited condensed consolidated statement of changes in equity of the financial statements.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30th June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Gross Profit

During the Period, the Group's overall revenue amounted to approximately HK\$164.7 million, representing a decrease of 8.7% as compared with the same period of last year. The decrease in revenue is mainly due to the decrease in revenue derived from Hong Kong and the PRC markets as further discussed below. At the same time, the rising cost of production led the gross profit margin also decreased to 2.5% for the Period (six months ended 30th June 2017: 5.3%). Consequently, the overall gross profit of the Group for the Period decreased significantly by 57.9% to approximately HK\$4.1 million as compared with the same period of last year.

Operating Results

Other Revenue and Net (Loss)/Income

The Group's other revenue and net loss significantly increased to approximately HK\$130.7 million for the Period (six months ended 30th June 2017: other revenue and net income of approximately HK\$59.2 million). Although overall rental income generated from leasing out of investment properties increased to approximately HK\$18.7 million (six months ended 30th June 2017: approximately HK\$2.9 million), the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising fair value losses on private investment funds and unlisted equity securities not held for trading (previously classified as available-for-sale financial assets under HKAS 39) during the first half of 2018. This caused the Group to record net losses on financial assets/liabilities at fair value through profit or loss of approximately HK\$180.6 million for the Period (six months ended 30th June 2017: net gains of approximately HK\$34.9 million) even though the Group recognising a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK\$45.5 million. This was one of the major reasons for the significant increase in the loss attributable to owners of the Company for the Period as compared with the same period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Operating Results *(Continued)*

Changes in Fair Value of Investment Properties

The Group recognised net revaluation gains of approximately HK\$20.6 million on its investment properties for the Period (six months ended 30th June 2017: net revaluation loss of approximately HK\$3.1 million).

Operating Expenses

With the decrease in the Group's overall revenue, the Group's distribution and selling expenses decreased to approximately HK\$7.3 million for the Period (six months ended 30th June 2017: approximately HK\$7.8 million). At the same time, the Group's general and administrative expenses also decreased by 6.4% to approximately HK\$54.7 million for the Period (six months ended 30th June 2017: approximately HK\$58.4 million).

Other Operating Expenses

Other operating expenses of the Group increased to approximately HK\$3.4 million for the Period (six months ended 30th June 2017: approximately HK\$2.4 million). This increase was mainly due to the increase in miscellaneous costs together with the withholding tax on interest income.

Finance Costs

Imputed interest expenses of approximately HK\$62.8 million was recorded for the Period (six months ended 30th June 2017: approximately HK\$3.6 million) in respect of the convertible bonds issued by the Company on 20th June 2017, which caused the finance costs of the Group to increase significantly to approximately HK\$67.6 million for the Period (six months ended 30th June 2017: approximately HK\$7.9 million).

Loss for the Period

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company of approximately HK\$239.2 million for the Period (six months ended 30th June 2017: approximately HK\$10.9 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Liquidity and Financial Resources

As at 30th June 2018, the Group had net current assets of approximately HK\$841.7 million. The Group had cash and bank balances and pledged bank deposits of approximately HK\$203.3 million and HK\$237.1 million respectively. The Group's financial resources were funded mainly by bank and other loans and its shareholders' funds. As at 30th June 2018, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 3.3 times and the gearing ratio, as measured by total liabilities divided by total equity, was 17.3%. Hence, as at 30th June 2018, the overall financial and liquidity positions of the Group remained at a stable and healthy level.

Charges on Group Assets

Details of charges on the Group assets are set out in note 18 to the unaudited condensed consolidated interim financial statements in this report.

Funding

Fundraising Activities

Issue of Convertible Bonds

On 26th May 2017, the Company entered into a subscription agreement with Cloud Empire Investments Limited ("Cloud Empire") as the subscriber in relation to the issue of convertible bonds in principal amount of HK\$504.0 million (the "Convertible Bonds"). On 20th June 2017 (the "Bond Issue Date"), the Company issued Convertible Bonds to Cloud Empire. The Convertible Bonds bore interest at the rate of 6% per annum. Such interest was accrued on the outstanding principal amount of the Convertible Bonds and would only be payable by the Company to Cloud Empire once every six months from the Bond Issue Date if the Convertible Bonds were neither converted during the conversion period nor redeemed prior to 20th June 2018 (the "Bond Maturity Date").

The Convertible Bonds could be converted into ordinary shares of the Company at an initial conversion price of HK\$1.4 per share (subject to adjustments) for a maximum number of 360,000,000 conversion shares. The market price of the shares of the Company ("Shares") was HK\$0.97 and HK\$1.02 as at 26th May 2017 and 20th June 2017 respectively. The conversion period commenced from the 180th day after the Bond Issue Date and ends on the five business days prior to the Bond Maturity Date. The net proceeds from the issue of the Convertible Bonds net of issue cost amounted to approximately HK\$500.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Funding *(Continued)*

Fundraising Activities (Continued)

Issue of Convertible Bonds *(Continued)*

On Bond Maturity Date, the Company redeemed all of the 6% Convertible Bonds at the redemption price equal to the outstanding principal amount of HK\$504.0 million and settled all unpaid accrued interests thereon in the sum of approximately HK\$15.2 million. For details of the Convertible Bonds, please refer to the Company's announcements dated 26th May 2017, 2nd June 2017, 20th June 2017 and note 17 to the unaudited condensed consolidated interim financial statements in this report.

Capital Structure

The shares of the Company were listed on GEM on 31st January 2000. The changes in the capital structure of the Company for the Period are set out in note 19 to the unaudited condensed consolidated interim financial statements in this report.

Significant Investments/Material Acquisitions and Disposals

On 9th February 2018, the Group further invested HK\$20,000,000 in a private investment fund, namely iSun Global Restructuring-led Partnership Fund I LP ("iSun Fund"), as part of the Group's commitment of investment in iSun Fund of HK\$200,000,000. Details of the iSun Fund and the Group's commitment can be referred to the announcements of the Company dated 25th July 2017 and 9th February 2018. Except for the above investment in private investment funds and listed securities, the Group had no significant investment and no material acquisition or disposal during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Segment Information

The Group's core business segment is Information Home Appliances ("IHA"). The total revenue of the IHA segment for the Period and the three months ended 30th June 2018 significantly decreased by 8.7% and 57.6% to approximately HK\$164.7 million and HK\$45.8 million respectively as compared with the same periods of last year. Although the Group's revenue in overseas markets for the Period increased by 71.7% to approximately HK\$126.9 million as compared with the same period of last year, the Group's revenue in Hong Kong and the PRC markets decreased significantly by 66.4% and 55.5% to approximately HK\$29.8 million and HK\$8.0 million respectively as compared with the same period of last year due to a significant decrease in sales order received. At the same time, rising cost of production led the gross profit margin also decreased to 2.5% for the Period (six months ended 30th June 2017: 5.3%). Consequently, the overall gross profit of the Group for the Period decreased significantly by 57.9% to approximately HK\$4.1 million as compared with the same period of last year and the IHA segment recorded a loss of approximately HK\$28.7 million for the Period (six months ended 30th June 2017: approximately HK\$22.4 million). As the IHA segment recorded significant losses for two consecutive years, the Group plans to outsource the production line in the second half of 2018 to improve production and operating costs. As a result, the Group dismissed part of the production line staffs and related management personnel with severance payment of approximately HK\$5.1 million paid during the Period.

The Group's investing segment is principally engaged in trading of securities and investing in financial instruments. This segment recorded a loss of approximately HK\$174.6 million for the Period (six months ended 30th June 2017: a profit of approximately HK\$43.5 million). The main reason was that the Group recorded net losses on financial assets/liabilities at fair value through profit or loss of approximately HK\$180.6 million due to adverse capital market conditions and the first adoption of HKFRS 9 for the Period (six months ended 30th June 2017: net gains of approximately HK\$34.9 million). This was one of the major reasons for the significant increase in the loss attributable to owners of the Company for the Period as compared with the same period of last year.

The leasing segment of the Group comprises leasing out of properties. This segment recorded a profit of approximately HK\$9.1 million for the Period (six months ended 30th June 2017: approximately HK\$6.4 million). The other operations segment of the Group comprises trading of miscellaneous materials. This segment recorded a loss of approximately HK\$141,000 for the Period (six months ended 30th June 2017: approximately HK\$725,000).

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL REVIEW (Continued)

Segment Information (Continued)

The internet data centre (“IDC”) segment of the Group comprises construction, operation and leasing out of IDC. This segment recorded a profit of approximately HK\$25.2 million for the Period (six months ended 30th June 2017: a loss of approximately HK\$16.6 million). This significant improvement in the segment result was mainly attributable to the Group recorded rental income from leasing out of IDC of approximately HK\$14.8 million (six months ended 30th June 2017: HK\$Nil) and recognised net revaluation gains of approximately HK\$13.3 million on its investment properties for the Period (six months ended 30th June 2017: net revaluation loss of approximately HK\$9.0 million). As this segment is still at the investing stage, the Group will continue to deploy resources in this segment.

Geographical markets of the Group were mainly located in overseas during the Period. The Group has been actively exploring new overseas markets. As a result, the overall revenue generated from the overseas markets for the Period increased significantly by 71.7% to approximately HK\$126.9 million as compared with the same period of last year. In the Hong Kong market, as the market is entering a mature period, the Group’s overall revenue in the Hong Kong market decreased by 66.4% to approximately HK\$29.8 million for the Period as compared with the same period of last year. Since one of the major PRC customers of the Group changed its product and only placed small orders with the Group during the Period, the overall revenue of the Group in the PRC market decreased significantly by 55.5% to approximately HK\$8.0 million as compared with the same period of last year. As such, the overall revenue of the Group decreased by 8.7% to approximately HK\$164.7 million for the Period as compared with the same period of last year.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in Renminbi (“RMB”) and United States dollars (“USD”). The assets of the Group were mainly denominated in RMB with the remaining portions denominated in USD and in HKD. The official exchange rates for USD and HKD have been relatively stable for the Period. Therefore, the Group is only exposed to foreign exchange risk arising from RMB exposures, primarily with respect to the HKD. During the Period, appreciation in RMB against HKD resulted in the net exchange gains of approximately HK\$11.2 million (six months ended 30th June 2017: approximately HK\$12.1 million). As at 30th June 2018, the Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. However, the Group will constantly monitor and manage its exposure to foreign exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Human Resources and Relations with the Employees

As at 30th June 2018, the Group had over 250 (30th June 2017: over 520) full time employees, of which 32 (30th June 2017: 26) were based in Hong Kong and the rest were in the PRC and the United States. Staff costs of the Group amounted to approximately HK\$47.1 million for the Period (six months ended 30th June 2017: approximately HK\$42.4 million). The increase in the staff costs was mainly attributable to the Group's dismissal of part of the production line staffs and related management personnel and payment of severance payment of approximately HK\$5.1 million during the Period. The employees of the Company's subsidiaries are employed and promoted based on their suitability for the positions offered. The salary and benefit levels of the Group's employees are in line with the market rates. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to basic salaries, staff benefits also include medical scheme, various insurance schemes and share option scheme.

BUSINESS REVIEW

After more than fifteen years of development and under the steady growth of the global Internet Protocol Television ("IPTV") market, the Group's IHA business has entered into a period of market maturity. With the accumulation of technological expertise over the years and the Group's own intermediary software platform to improve and optimise products, the Group can meet the needs of different customers, finish the work of integrating with termination systems and middleware products. Products launched by the Group in the markets include high digital set-top box ("STB"), hybrid dual mode STB, Over-the-top ("OTT")/IPTV STB, and intelligent STB equipped with Android system products, etc.. Under the intense market competition condition, the Group is facing many opportunities as well as confronting severe challenges. The Group experienced a decrease in overall revenue and gross profit margin for the Period as compared with the same period of last year. As the IHA business recorded significant losses for two consecutive years, the Group plans to outsource the production line in the second half of 2018 to improve production and operating costs. As a result, the Group dismissed part of the production line staffs and related management personnel with severance payment paid during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

As one of the leading suppliers of IPTV STB in Hong Kong, the Group still maintains cooperative relationships with a Hong Kong telecommunication operator in its marketing activities. In addition, the Group has also cooperated with a well-known Hong Kong TV programme operator to assist with its expansion on OTT service in the Hong Kong market. However, as the market is entering a mature period, the Group's overall revenue in the Hong Kong market decreased by 66.4% to approximately HK\$29.8 million for the Period as compared with the same period of last year.

In the overseas markets, the Group keeps on maintaining good cooperation relationships with various existing telecom operators and system integration suppliers. The Group has managed to forward continuous shipments of its products to customers in Australia, Brazil, Spain and the United States, etc.. At the same time, the Group is actively exploring new markets in Bulgaria, Denmark, Netherlands and the United Kingdom. Purchase orders from overseas customers increased for the Period. In particular, revenue from the Australian market increased significantly by 75.5% to approximately HK\$108.9 million as compared with the same period of last year. Therefore, the overall revenue of the overseas markets for the Period increased significantly by 71.7% to approximately HK\$126.9 million as compared with the same period of last year.

In the PRC market, since one of the major PRC customers of the Group changed its product and only placed the small orders with the Group during the Period, the overall revenue of the Group in the PRC market decreased significantly by 55.5% to approximately HK\$8.0 million as compared with the same period of last year.

With respect to the new business, IDC, the Group concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services. During the Period, the Group's rental income from leasing out of IDC was approximately HK\$14.8 million (six months ended 30th June 2017: HK\$Nil). In addition, the Group and two United States private companies (the "Consultants") entered into design and consultancy agreements for the Period. The Consultants will provide consultancy services on the design and construction of the Group's first IDC in the United States. The establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group and shows the determination of the Group to vigorously develop its IDC business.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

With respect to investment business, the Group conducted some investments in the secondary market and private investment funds during the Period. Based on value investment, the Group only selected the investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment strategy. Maintenance and appreciation of asset value are the long-term investment commitments of the Group. Meanwhile, the Group also constantly reviews and manages its investment portfolios. During the Period, the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising net losses on financial assets/liabilities at fair value through profit or loss of approximately HK\$180.6 million for the Period (six months ended 30th June 2017: net gains of approximately HK\$34.9 million) even though the Group recognising a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK\$45.5 million.

Key Risks and Uncertainties

During the Period, the Group endeavoured to improve the risk management system on different aspects of company strategies, businesses operation and finance. A number of risks and uncertainties may affect the financial results and business operations of the Group. For the IHA business, factors, such as fierce market competition in the PRC and overseas markets, rapid iteration of technological products, RMB exchange rate fluctuation, the drop in the selling price of products and the increase in production cost and labour cost, may bring uncertain impacts on the development of the IHA business of the Group. For the IDC business, whether the construction and layout of the project can be completed as scheduled and whether the leasing contracts signed by customers and rental income can meet the expectation will affect the progress of the IDC business of the Group. For the investing business, the frequent changes of market policies and regulations about the PRC stock market and the unclear global economic environment would be two key risk factors. In future business operations, the Group will be highly aware of the aforesaid risks and uncertainties and will proactively adopt effective measures to tackle such risks and uncertainties.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Environmental Policies and Performance

The Group is committed to building an environmental-friendly corporation and will always take the environmental protection issue into consideration during daily operation. The Group does not produce material waste nor emit material quantities of air pollution materials during its production and manufacturing process. The Group also strives to minimise the adverse environmental impact by encouraging the employees to recycle office supplies and other materials and to save electricity.

Compliance with Laws and Regulations

The Company was listed on the Stock Exchange in 2000. The operations of the Group are mainly carried out by the Company's subsidiaries in the PRC, Hong Kong and the United States. As such, the Group's operations shall comply with relevant laws and regulations in the PRC, Hong Kong and the United States accordingly. During the period under review, the Group has complied with all the relevant laws and regulations applicable to it in all material respects in the PRC, Hong Kong and the United States. The Group shall continue to keep itself updated with the requirements of the relevant laws and regulations in the PRC, Hong Kong and the United States and adhere to it to ensure compliance.

BUSINESS PROSPECT

Being one of the earliest companies researching and developing in broadband STB products in the world, the Group, based on its accumulation of technological expertise over the years and its own research and development capability, will continue to improve and upgrade its core products and performances, and actively develop new products to adapt to new market opportunities, so as to maintain strong competitive edge. The Group vigorously expanded the market of overseas small and medium-sized operators with an objective to increase its operating revenue and to boost the overall gross profit margin of the STB business of the Group. The Group expects its STB business to achieve a better performance in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS PROSPECT *(Continued)*

The Group takes initiatives in developing businesses in relation to global IDC and cloud computing. In recent years, with economic globalisation and the implementation of China's the "Belt and Road" strategy, the development of Chinese enterprises in overseas markets has accelerated significantly. The industries involved have been further expanded from traditional manufacturing industry to multimedia, games, video, mobile internet and other industries. Therefore, the overseas Chinese enterprises have strong demand for cloud computing and big data services locally. To take advantage of its business network and industry credibility in the Greater China region as well as the international market, the Group aims to provide safe and reliable data centre facilities and services for renowned domestic and overseas enterprises, and by proactively expanding internationally, the Group will develop global cloud computing data centres for large scale corporations and global cloud computing total solutions for small and medium enterprises in the Greater China region.

As for the new business, IDC, during 2017, in addition to participating in domestic IDC projects operated by independent third parties through acquisitions, the Group also purchased land and properties in the "Capital of Silicon Valley" located at San Jose, California, the United States, and has entered design and consultancy agreements with two United States private companies in early 2018, to construct the Group's first IDC in the United States, is expected to be officially operated by the first half of 2019. The establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group, and shows the determination of the Group to vigorously develop its IDC business. The project will expand the IDC portfolio of the Group and explore new sources of revenue, so as to increase the Group's overall profitability in the near future. In the future, the Group will also actively cooperate with various parties in the PRC, Hong Kong and overseas markets, in order to develop the Group into an internationally renowned leading cloud computing enterprise in the era of big data.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS PROSPECT *(Continued)*

By subscription of the iSun Fund, indirectly investing in the blockchain technology related company and subscription of the digital asset initial coin offering (“ICO”), the Group proactively made deployments in the new field of blockchain technology. After the advent of the internet era, technologies such as big data, cloud computing and artificial intelligence have significantly enhanced social productivity, while the application of blockchain represented building a new type of production relations in the internet era. There are wide and expandable applications of blockchain, and therefore it will bring tremendous changes and a bright future for the entire human society. The iSun Fund primarily targets investments in public or private companies or digital assets (such as cryptocurrencies) in the data centre, fintech or high tech (software and hardware) sectors. It is expected that this business will generate positive income for the Group in the near future.

2018 is an important year for the development of the Group. Based on the Company’s confidence in its future development prospects and the recognition of its value, Mr. Li Qiang, Chairman of the Group, and Mr. Gao Fei, Chief Executive Officer, increased their shareholdings in the Company respectively at the end of 2017, and subject to their own personal decision, there are possibilities that they will further increase their shareholdings in the future. The management of the Group and all the staff will continue to work together, with their concerted efforts and by focusing on the IHA business and IDC business, the Group will forge ahead to achieve excellent performance once again.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) pursuant to the ordinary resolutions passed by the shareholders of the Company (the “Shareholders”) at the special general meeting (“SGM”) on 14th January 2015 (the “Option Adoption Date”). The Share Option Scheme is valid for ten years from the Option Adoption Date and shall expire at the close of business on the day immediately preceding the 10th anniversary thereof unless terminated earlier by the Shareholders in general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

The total number of shares which may be issued upon the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued share capital of the Company on the Option Adoption Date (the "Scheme Mandate") unless the Company obtains an approval from the Shareholders to renew the 10% limit on the basis that the maximum number of shares in respect of which share options may be granted under the Share Option Scheme together with any share options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes shall not exceed 30% of the total issued share capital of the Company from time to time. At the SGM which was held on the Option Adoption Date, the Scheme Mandate was approved by the Shareholders and the total number of shares that may fall to be allotted and issued under the Share Option Scheme would be 179,211,680 shares, representing 10% of the total number of shares in issue as at the Option Adoption Date.

On 16th January 2015, the Company offered to grant 186 eligible participants to subscribe for a total of 107,527,008 ordinary shares of HK\$0.025 each in the capital of the Company at an exercise price HK\$2.2 per share ("Share Options"). These Share Options are exercisable up to five years from the date of grant. On 8th June 2016, the Company removed vesting period of all existing Share Options which are outstanding and unvested under the Share Option Scheme pursuant to the ordinary resolutions passed by the Shareholders at a SGM and such Share Options shall therefore be immediately vested with the consent of relevant Share Options holders. As a result, non-cash share-based compensation expenses in respect of all outstanding and unvested Share Options at the date of approval of removal of vesting period of the Share Options of approximately HK\$7,564,000 was recognised as expense by the Group with the same amount credited to share option reserves under equity for the year ended 31st December 2016. For details of the amendment of the terms of Share Options, please refer to the Company's announcement dated 18th May 2016 and the circular dated 23rd May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SHARE OPTION SCHEME (Continued)

Details of the movements of Share Options granted to subscribe for the Shares are as follows:

For the six months ended 30th June 2018

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Number of shares issuable under the Share Options					
				Outstanding as at 1st January 2018	Granted during the period	Reclassification of Category during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2018
Directors									
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	-	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	-	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Continuous contract employees	16th January 2015	2.2	16th January 2015 – 15th January 2020	50,516,776	-	-	-	(1,724,000)	48,792,776
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	-	-	-	-	1,920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	25,934,232	-	-	-	(8,000,000)	17,934,232
				<u>93,871,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,724,000)</u>	<u>84,147,008</u>
Outstanding as at 30th June 2018									
									<u>84,147,008</u>
Weighted average exercise price (HK\$)				<u>2.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SHARE OPTION SCHEME (Continued)

For the six months ended 30th June 2017

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Number of shares issuable under the Share Options					Outstanding as at 30th June 2017
				Outstanding as at 1st January 2017	Granted during the period	Reclassification of Category during the period	Exercised during the period	Lapsed during the period	
Directors									
Mr. Zhu Weisha (retired on 8th March 2017)	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	(1,792,116)	-	-	-
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	-	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	-	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Wu Jiajun (resigned on 15th September 2017)	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Chief Executive Officer									
Mr. Kevin Choo (resigned on 15th December 2017)	16th January 2015	2.2	16th January 2015 – 15th January 2020	8,000,000	-	-	-	-	8,000,000
Continuous contract employees	16th January 2015	2.2	16th January 2015 – 15th January 2020	61,550,892	-	1,792,116	-	(402,000)	62,941,008
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	-	-	-	-	1,920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,000,000	-	-	-	-	6,000,000
				<u>95,763,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(402,000)</u>	<u>95,361,008</u>
Outstanding as at 30th June 2017									<u>95,361,008</u>
Weighted average exercise price (HK\$)				<u>2.2</u>	<u>-</u>	<u>2.2</u>	<u>-</u>	<u>2.2</u>	<u>2.2</u>

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SHARE OPTION SCHEME (Continued)

- * Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants are subject to vesting conditions. However, the vesting period of all existing Share Options granted to the Directors, Chief Executive Officer, continuous contract employees, suppliers of goods or services and other eligible participants which are outstanding and unvested had been removed by the approval of the Shareholders at the SGM held on 8th June 2016.

Notes:

- (i) The price of the Shares before the date of the grant of the Share Options is the closing price of the Shares as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.
- (ii) 9,724,000 (six months ended 30th June 2017: 402,000) Share Options were lapsed according to the terms of the Share Option Scheme during the Period.

The cost of Share Options granted is estimated on the date of the grant using the Binomial Model with the following parameters:

Date of grant	16th January 2015
Number of shares issuable under options granted	107,527,008
Exercise price	HK\$2.2
Fair value at the date of grant	HK\$0.72 – HK\$0.75
Risk-free interest rate based on the yields of the 5-year	
Exchange Fund Notes	0.88%
Expected volatility [#]	46%
Expected dividend yield	2.27%
Expected life	3 years to 5 years

- [#] The expected volatility is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, at the date of approval of these unaudited condensed consolidated interim financial statements for the Period, no other share options were exercised subsequent to the end of the Period.

When the Share Options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserves will be transferred to retained profits.

The fair value of the Share Options are subject to a number of assumptions and the limitation of the Binomial Model.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2018, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage of the total issued share capital of the Company
Mr. Li Qiang	Personal	4,604,000	Beneficial owner	0.26%
Mr. Gao Fei	Personal	2,190,000	Beneficial owner	0.12%
Mr. Shi Guangrong	Personal	22,660,000	Beneficial owner	1.26%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.44%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%
Mr. Zhong Pengrong	Personal	144,000	Beneficial owner	0.01%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(Continued)

(2) Long positions in the underlying shares of the Company

Pursuant to the Share Option Scheme adopted by the Shareholders on 14th January 2015, the Directors and chief executive of the Company in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for the Shares, details of which as at 30th June 2018 were as follows:

Category	Date of grant	Exercise price per share HK\$	Exercisable period	Number of shares issuable under the Share Options				
				Outstanding as at 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2018
Directors								
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	6,500,000	-	-	-	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 - 15th January 2020	7,000,000	-	-	-	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	-	-	-	1,000,000
				<u>15,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,500,000</u>

Further details regarding the Share Options Scheme are set out under the heading "Share Option Scheme" in this report.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th June 2018, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as is known to any Directors or chief executive of the Company, as at 30th June 2018, the following persons (other than Directors or chief executive of the Company) have interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholders	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage of the total issued share capital of the Company
Cloudrider Limited ("Cloudrider") (Note 1)	Corporate	450,357,200	Beneficial owner	24.98%
Lontrue Co., Ltd* (朗源股份有限公司) ("Lontrue") (Note 1)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Honbridge Holdings Limited (Stock Code: 8137) ("Honbridge") (Note 2)	Corporate	450,357,200	Person having a security interest in shares	24.98%
Hong Bridge Capital Limited ("Hong Bridge") (Note 2)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Mr. He Xuechu (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Ms. Foo Yatyan (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Super Dragon Co., Ltd. ("Super Dragon") (Note 3)	Corporate	121,533,800	Beneficial owner	6.74%

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Long positions in the shares of the Company *(Continued)*

Notes:

1. Reference is made to the announcements of the Company dated 11th April 2016, 12th April 2016 and 16th May 2016 in relation to a proposed disposal of shares in the Company by Super Dragon. Super Dragon has on 10th April 2016 entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Cloudrider, in relation to a proposed sale by Super Dragon and proposed acquisition by the Cloudrider of 450,357,200 ordinary shares of the Company ("Sale Shares") (representing 25% of the issued ordinary shares of the Company as at 31st March 2016) at HK\$2.40 per share. On 16th May 2016, the transfer of the Sale Shares was completed as contemplated under the Sale and Purchase Agreement. According to the disclosure forms filed by Cloudrider and Lontrue on 19th May 2016, Lontrue holds 35.65% of the equity interest of Cloudrider and is deemed to be interested in 450,357,200 shares of the Company. Mr. Li Qiang, the executive Director and chairman of the Board of the Company, is the sole shareholder and director of Capital Melody Limited, holding 32.09% of the equity interest of Cloudrider as at 30th June 2018.
2. Reference is made to the announcement of Honbridge dated 11th April 2016 and a circular dated 24th May 2016 in relation to a loan agreement dated 11th April 2016 between Honbridge and Cloudrider. A loan in the principal amount of HK\$540,000,000 granted by Honbridge to Cloudrider pursuant to a loan agreement at the rate of 3% per annum, which may be drawn down in two tranches (the "Loan"). The maturity date was 12 months after the drawdown of the Tranche A Loan, subject to an option to extend by Cloudrider to the date falling 24 months after the drawdown. The Loan is secured by (i) share charges provided by Bronze Pony Investments Limited and Capital Melody Limited having granted security over all of their shareholdings in Cloudrider; and (ii) a debenture consisting of a fixed and floating charge over all of the assets of Cloudrider in favour of Honbridge, or such other security as required by Honbridge to its satisfaction. According to the disclosure forms filed by Honbridge, Hong Bridge, Mr. He Xuechu and Ms. Foo Yatyan on 23rd September 2016, Hong Bridge holds more than one-third of the issued share capital of Honbridge and Mr. He Xuechu holds more than one-third of the issued share capital of Hong Bridge which in turn holds more than one-third of the issued share capital of Honbridge. As such, Mr. He Xuechu and Hong Bridge are deemed interested in 450,357,200 shares of the Company in which Honbridge has an interest. Ms. Foo Yatyan is deemed to be interested in 450,357,200 shares of the Company because the interests are related to the interests of children under 18 and/or spouse.
3. Mr. Zhu Weisha holds these shares through Super Dragon, a company in which Mr. Zhu holds the entire issued share capital and of which he is the sole director.

* *For identification purpose only*

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Long positions in the shares of the Company *(Continued)*

Save as disclosed above, as at 30th June 2018, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Period.

COMPETING INTERESTS

None of the Directors or the controlling Shareholders and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Period.

CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the continuing growth of the Group and for safeguarding and maximising Shareholders' interests.

During the six months ended 30th June 2018, the Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules, except in relation to CG Code provisions A.6.7 and E.1.2, as more particularly described below.

CORPORATE GOVERNANCE *(Continued)*

CG Code Provision A.6.7

Pursuant to code provision A.6.7 stipulates that independent non-executive Directors and other non-executive directors should attend general meeting. Due to their own other important business engagements, some independent non-executive Directors did not attend the annual general meeting held on 18th May 2018 (the “AGM”).

CG Code Provision E.1.2

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the AGM and invite the chairman of the audit, remuneration and nomination committees to attend and be available to answer questions at the AGM. Mr. Shi Guangrong, an executive Director, has been performing the above duties in lieu of Mr. Li Qiang, the Chairman of the Board, who had other pre-arranged business commitments on the day of the AGM.

NON-COMPLIANCE WITH RULES 5.05(1) AND 5.28 OF THE GEM LISTING RULES

Pursuant to Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules, the Company must appoint independent non-executive Directors representing at least one-third of the Board and the Audit Committee must comprise a minimum of three members respectively. Upon the resignation of independent non-executive Director of Mr. Li Menggang on 24th May 2018, the Company did not fulfill the Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules. However, on 6th June 2018, with the appointment of Ms. Dong Hairong as the independent non-executive Director, the number of the independent non-executive Directors and Audit Committee members have fulfilled with the minimum number required under Rule 5.05(1) and Rule 5.28 of the GEM Listing Rules.

UPDATE ON INFORMATION OF DIRECTORS PURSUANT TO RULE 17.50B OF THE GEM LISTING RULES

Changes in the information of Directors since the date of the 2017 annual report of the Company which are required to be disclosed pursuant to Rule 17.50B of the GEM Listing Rules are set out below:

1. Mr. Li Menggang resigned as an independent non-executive Director, a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 24th May 2018.
2. Ms. Dong Hairong had been appointed as an independent non-executive Director, a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company with effect from 6th June 2018.

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee"). It currently comprises three independent non-executive Directors, namely Ms. Shen Yan (Chairlady), Mr. Zhong Pengrong and Ms. Dong Hairong.

The primary functions of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

The Group's unaudited condensed consolidated interim results for the Period have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the CG Code and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the required standard of dealings as set out in rules 5.48 to 5.67 (the "Required Standard of Dealings") of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, each Director confirmed that he/she has complied with the required standard set out in the Required Standard of Dealings during the Period.

By order of the Board

Yuxing InfoTech Investment Holdings Limited

Li Qiang

Chairman

Hong Kong, 9th August 2018

As at the date hereof, the executive Directors are Mr. Li Qiang, Mr. Gao Fei, Mr. Shi Guangrong and Mr. Zhu Jiang; the independent non-executive Directors are Ms. Shen Yan, Mr. Zhong Pengrong and Ms. Dong Hairong.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its publication and on the Company's website at www.yuxing.com.cn.