



**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  
2019**

\* for identification purposes only

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## HIGHLIGHTS FOR THE SIX-MONTH PERIOD

- For the six months and three months ended 30th June 2019, overall revenue of the Group was approximately HK\$205.7 million and HK\$78.8 million respectively, representing an increase of 24.9% and 71.9% respectively in comparison to the same periods of 2018. The Group recorded the overall gross profit of approximately HK\$16.5 million and HK\$7.5 million for the six months and three months ended 30th June 2019 respectively (six months and three months ended 30th June 2018: gross profit and gross loss of approximately HK\$4.1 million and HK\$1.3 million respectively).
- Profit attributable to owners of the Company for the six months ended 30th June 2019 amounted to approximately HK\$90.3 million (six months ended 30th June 2018: loss attributable to owners of the Company of approximately HK\$239.2 million), while the Group recorded a loss attributable to owners of the Company of approximately HK\$20.0 million for the three months ended 30th June 2019 (three months ended 30th June 2018: approximately HK\$199.1 million).
- Basic earnings per share for the six months ended 30th June 2019 was HK\$0.05 (six months ended 30th June 2018: basic loss per share HK\$0.13) and basic loss per share for the three months ended 30th June 2019 was HK\$0.01 (three months ended 30th June 2018: HK\$0.11).
- Total equity attributable to owners of the Company as at 30th June 2019 was approximately HK\$2,076.6 million (31st December 2018: approximately HK\$1,987.9 million) or net assets per share of approximately HK\$1.2 (31st December 2018: approximately HK\$1.1).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June 2019 (six months ended 30th June 2018: 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 2019 together with the comparative unaudited figures for the same periods in 2018, 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 2019

	Note	For the six months ended 30th June		For the three months ended 30th June	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	3	205,733	164,694	78,821	45,841
Cost of sales		(189,280)	(160,643)	(71,287)	(47,106)
Gross profit/(loss)		16,453	4,051	7,534	(1,265)
Other revenue and net income/(loss)	4	124,061	(130,685)	(1,725)	(150,715)
Distribution and selling expenses		(4,700)	(7,268)	(2,503)	(3,605)
General and administrative expenses		(37,916)	(54,729)	(19,183)	(31,886)
Other operating expenses		(3,793)	(3,363)	(2,245)	(1,045)
Net changes in fair value of investment properties		(527)	20,627	(527)	20,627
Profit/(Loss) from operations		93,578	(171,367)	(18,649)	(167,889)
Finance costs	5	(3,975)	(67,649)	(2,076)	(31,005)
Profit/(Loss) before tax	5	89,603	(239,016)	(20,725)	(198,894)
Income tax expenses	6	(62)	(160)	(62)	(160)
Profit/(Loss) for the period		89,541	(239,176)	(20,787)	(199,054)
<b>Profit/(Loss) attributable to:</b>					
Owners of the Company		90,306	(239,176)	(20,022)	(199,054)
Non-controlling interests		(765)	-	(765)	-
		89,541	(239,176)	(20,787)	(199,054)
		HK\$	HK\$	HK\$	HK\$
Earnings/(Loss) per share	7				
- Basic		0.05	(0.13)	(0.01)	(0.11)
- Diluted		0.05	(0.13)	(0.01)	(0.11)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months and three months ended 30th June 2019

	For the six months ended 30th June		For the three months ended 30th June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(Loss) for the period	<b>89,541</b>	(239,176)	<b>(20,787)</b>	(199,054)
Other comprehensive loss:				
Items that are reclassified or may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of PRC subsidiaries	<b>(1,868)</b>	(5,732)	<b>(16,261)</b>	(39,557)
Release of translation reserves upon disposal of a subsidiary	<b>250</b>	–	<b>250</b>	–
Other comprehensive loss for the period	<b>(1,618)</b>	(5,732)	<b>(16,011)</b>	(39,557)
Total comprehensive income/(loss) for the period	<b>87,923</b>	(244,908)	<b>(36,798)</b>	(238,611)
<b>Total comprehensive income/(loss) attributable to:</b>				
Owners of the Company	<b>88,688</b>	(244,908)	<b>(36,033)</b>	(238,611)
Non-controlling interests	<b>(765)</b>	–	<b>(765)</b>	–
	<b>87,923</b>	(244,908)	<b>(36,798)</b>	(238,611)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2019

		(Unaudited) As at 30th June 2019 HK\$'000	(Audited) As at 31st December 2018 HK\$'000
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Investment properties		<b>431,621</b>	434,003
Property, plant and equipment	8	<b>256,984</b>	218,223
Prepaid lease payments		–	10,036
Right-of-use assets		<b>14,575</b>	–
Financial assets at fair value through profit or loss	11	<b>378,200</b>	368,373
Deferred tax assets		<b>18,707</b>	18,782
		<b>1,100,087</b>	1,049,417
<b>CURRENT ASSETS</b>			
Inventories		<b>3,768</b>	12,931
Loans receivable	9	<b>108,680</b>	119,937
Trade and other receivables	10	<b>316,647</b>	199,135
Prepaid lease payments		–	353
Financial assets at fair value through profit or loss	11	<b>536,098</b>	654,396
Income tax recoverable		<b>659</b>	661
Pledged bank deposits	15	<b>83,956</b>	254,660
Cash and bank balances		<b>283,611</b>	172,514
		<b>1,333,419</b>	1,414,587

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(Continued)*

As at 30th June 2019

		(Unaudited) As at 30th June 2019 <i>HK\$'000</i>	(Audited) As at 31st December 2018 <i>HK\$'000</i>
	<i>Note</i>		
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	166,793	199,214
Dividend payables		31	31
Bank and other loans	14	158,147	245,251
Financial liabilities at fair value through profit or loss	11	–	3,218
Income tax payable		–	8
Lease liabilities		3,081	–
		<u>328,052</u>	<u>447,722</u>
<b>NET CURRENT ASSETS</b>		<u>1,005,367</u>	<u>966,865</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,105,454</b>	2,016,282
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		28,237	28,350
Lease liabilities		1,387	–
		<u>29,624</u>	<u>28,350</u>
<b>NET ASSETS</b>		<u><b>2,075,830</b></u>	<u>1,987,932</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	45,077	45,077
Reserves		2,031,543	1,942,855
Equity attributable to owners of the Company		2,076,620	1,987,932
Non-controlling interests		(790)	–
<b>TOTAL EQUITY</b>		<u><b>2,075,830</b></u>	<u>1,987,932</u>

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

For the six months ended 30th June 2019

	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	Property revaluation reserves HK\$'000	Translation reserves HK\$'000	Retained profits HK\$'000			Total HK\$'000
As at 1st January 2019	45,077	133,249	8,668	234,621	55,612	24,540	16,752	1,469,413	1,987,932	1,987,932	
<b>Profit for the period</b>	-	-	-	-	-	-	-	90,306	90,306	(765)	89,541
<b>Other comprehensive loss:</b>											
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	(1,868)	-	(1,868)	-	(1,868)
Release of reserves upon disposal of a subsidiary	-	-	-	-	-	-	250	-	250	-	250
<b>Total other comprehensive loss</b>	-	-	-	-	-	-	(1,618)	-	(1,618)	-	(1,618)
<b>Total comprehensive income for the period</b>	-	-	-	-	-	-	(1,618)	90,306	88,688	(765)	87,923
<b>Transactions with owners: Contributions and distributions</b>											
Share options lapsed	-	-	-	-	(5,324)	-	-	5,324	-	-	-
<i>Change in ownership interest</i>											
Change in ownership interest in a subsidiary that does not result in a loss of control	-	-	-	-	-	-	-	-	-	(25)	(25)
<b>Total transactions with owners</b>	-	-	-	-	(5,324)	-	-	5,324	-	(25)	(25)
<b>As at 30th June 2019</b>	<b>45,077</b>	<b>133,249</b>	<b>8,668</b>	<b>234,621</b>	<b>50,288</b>	<b>24,540</b>	<b>15,134</b>	<b>1,555,043</b>	<b>2,076,620</b>	<b>(790)</b>	<b>2,075,830</b>



**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 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	Retained profits HK\$'000			Total HK\$'000
As at 1st January 2018	45,077	133,249	8,668	234,621	69,489	276,848	37,676	18,835	52,208	1,538,958	2,415,579	–	2,415,579
Change in accounting policy on adoption of HKFRS 9	–	–	–	–	–	(276,848)	–	–	–	276,848	–	–	–
As at 1st January 2018 (as restated)	45,077	133,249	8,668	234,621	69,489	–	37,676	18,835	52,208	1,815,806	2,415,579	–	2,415,579
<b>Loss for the period</b>	–	–	–	–	–	–	–	–	–	(239,176)	(239,176)	–	(239,176)
<b>Other comprehensive loss:</b> Exchange differences arising on translation of PRC subsidiaries	–	–	–	–	–	–	–	–	(5,732)	–	(5,732)	–	(5,732)
<b>Total other comprehensive loss</b>	–	–	–	–	–	–	–	–	(5,732)	–	(5,732)	–	(5,732)
<b>Total comprehensive loss for the period</b>	–	–	–	–	–	–	–	–	(5,732)	(239,176)	(244,908)	–	(244,908)
<b>Transactions with owners:</b> Contributions and distributions	–	–	–	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	–	–	–	(7,140)	–	–	–	–	7,140	–	–	–
Redemption of equity component of convertible bonds upon maturity	–	–	–	–	–	–	(37,676)	–	–	37,676	–	–	–
<b>Total transactions with owners</b>	–	–	–	–	(7,140)	–	(37,676)	–	–	44,816	–	–	–
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 CASH FLOWS (UNAUDITED)

For the six months ended 30th June 2019

	Note	For the six months ended 30th June 2019 HK\$'000	2018 HK\$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash generated from operations</b>		<b>50,590</b>	217,665
Income tax paid		(69)	(535)
<b>Net cash generated from operating activities</b>		<b>50,521</b>	217,130
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(42,094)	(9,833)
Decrease in investment in an insurance contract		–	8,467
Decrease in pledged bank deposits with original maturities over three months		92,370	713,395
Interest received		6,754	17,778
Decrease/(Increase) in loans receivable		11,543	(55,930)
Dividend received from listed equity securities		5,684	3,108
Proceeds from disposal of property, plant and equipment		29	–
Net cash inflow on disposal of a subsidiary	17	59	–
<b>Net cash generated from investing activities</b>		<b>74,345</b>	676,985
<b>FINANCING ACTIVITIES</b>			
New bank and other loans raised		10,799	50,000
Principal elements of lease payments		(1,332)	–
Repayment of bank loans		(97,740)	(402,385)
Repayments of convertible bonds upon expiry		–	(504,000)
Interest paid		(3,975)	(19,898)
<b>Net cash used in financing activities</b>		<b>(92,248)</b>	(876,283)
<b>Net increase in cash and cash equivalents</b>		<b>32,618</b>	17,832
<b>Cash and cash equivalents at beginning of period</b>		<b>333,317</b>	185,290
Effect of foreign exchange rate changes		208	137
<b>Cash and cash equivalents at end of period</b>		<b>366,143</b>	203,259

*Note:*

At the end of the reporting period, the pledged bank deposits comprised approximately HK\$1,424,000 which had an original maturity of more than three months but within one year when acquired and therefore has not been classified as cash equivalents in the unaudited condensed consolidated statement of cash flows.

## 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 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the GEM Listing Rules. 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 2018. They have been prepared on the historical cost basis, except for investment properties and 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 2018, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1st January 2019 as described below.

Annual Improvements to HKFRSs	2015-2017 Cycle
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 19	Employee benefits
Amendments to HKAS 28	Investments in Associates and Joint Ventures
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKASs 1 and 8	Definition of Material
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The adoption of these amendments to HKFRSs and HKASs, except for HKFRS 16, did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

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

### 1 Basis of preparation (Continued)

#### **HKFRS 16: Leases**

HKFRS 16 significantly changes the lessee accounting by replacing the dual model under HKAS 17 with a single model which requires a lessee to recognise assets and liabilities for the rights and obligations created by leases unless the exemptions apply. In subsequent measurement, depreciation (and, if applicable, impairment loss) and interest are recognised on the right-of-use assets and the lease liabilities respectively. Besides, among other changes, it requires enhanced disclosures to be provided by lessees and lessors.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has elected to apply the cumulative effect transition method and recognised the cumulative effect of initial adoption as an adjustment to the opening balance of components of equity at 1st January 2019 (i.e. the date of initial application). Therefore, the comparative information has not been restated for the effect of HKFRS 16. The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("leases of low-value assets").

#### Impact of adoption of HKFRS 16

The Group leases various staff quarters and office premises. Rental contracts are typically made for fixed periods of one to two years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

#### *Applicable before 1st January 2019*

Before the adoption of HKFRS 16, leases which did not transfer substantially all the risks and rewards of ownership to the lessee were classified as operating leases. Rental payable under operating leases (net of any incentives received from the lessor) was charged to profit or loss on a straight-line basis over the period of the lease. Commitments under operating leases for future periods were not recognised by the Group as liabilities.

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

### 1 Basis of preparation (Continued)

#### **HKFRS 16: Leases** (Continued)

Impact of adoption of HKFRS 16 (Continued)

*Applicable from 1st January 2019*

Upon adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases under HKAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the amount equals to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. Each lease payment is allocated between the lease liabilities and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use assets are amortised over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

The Group also applied the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- accounting for operating leases with remaining lease term of less than 12 months as at 1st January 2019 as short-term leases;
- the exclusion of initial direct costs for measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term when the contract contains option to extend or terminate the lease.

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

### 1 Basis of preparation (Continued)

#### HKFRS 16: Leases (Continued)

Impact of adoption of HKFRS 16 (Continued)

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made by applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*.

The following table summarises the impact of transition to HKFRS 16 on the consolidated statement of financial position of the Group as at 1st January 2019:

	Classification and carrying amount under HKAS 17 HK\$'000	Reclassification on adoption of HKFRS 16 HK\$'000	Initial measurement on adoption of HKFRS 16 HK\$'000	Classification and carrying amount under HKFRS 16 HK\$'000
<b>Assets</b>				
Prepaid lease payments	10,389	(10,389)	-	-
Right-of-use assets	-	10,389	2,005	12,394
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>				
Lease liabilities	-	-	(2,005)	(2,005)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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

### 1 Basis of preparation (Continued)

#### HKFRS 16: Leases (Continued)

Impact of adoption of HKFRS 16 (Continued)

Based on the foregoing, as at 1st January 2019:

- Prepaid lease payments in respect of the land use rights in the People's Republic of China (the "PRC") was reclassified as right-of-use assets under HKFRS 16.
- Right-of-use assets and lease liabilities of approximately HK\$2,005,000 were recognised on initial measurement respectively.
- There was no adjustment to the opening balance of components of equity as the cumulative effect of initial adoption was insignificant.

The Group applied single discount rate to a portfolio of leases with reasonably similar characteristics in Hong Kong and the PRC when measuring the present value of minimum lease payment.

The reconciliation of operating lease commitment to lease liabilities is set out below:

	The PRC HK\$'000	Hong Kong HK\$'000	Total HK\$'000
Operating lease commitments as at 31st December 2018	2,908	1,231	<b>4,139</b>
Leases of short-term and low value assets as at 1st January 2019	<u>(839)</u>	<u>(1,231)</u>	<u><b>(2,070)</b></u>
Gross lease liabilities as at 1st January 2019	2,069	–	<b>2,069</b>
Weighted average incremental borrowing rates as at 1st January 2019	5.58%	N/A	
<b>Lease liabilities as at 1st January 2019</b>	<b><u>2,005</u></b>	<b><u>–</u></b>	<b><u>2,005</u></b>

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

### 1 Basis of preparation (Continued)

#### HKFRS 16: Leases (Continued)

Impact of adoption of HKFRS 16 (Continued)

The movements of right-of-use assets and lease liabilities within HKFRS 16 during the six months ended 30th June 2019 are set out below:

	Right-of-use assets HK\$'000	Lease liabilities HK\$'000
As at 1st January 2019	12,394	(2,005)
Additions	3,908	(3,908)
Amortisation of right-of-use assets	(1,602)	–
Imputed interest expenses on lease liabilities	–	(98)
Lease payments	–	1,430
Release upon disposal of a subsidiary	(58)	60
Exchange realignment	(67)	53
<b>As at 30th June 2019</b>	<b>14,575</b>	<b>(4,468)</b>

The operating lease expenses on short-term leases and leases of low-value assets recognised in profit or loss during the six months and three months ended 30th June 2019 amounted to approximately HK\$1,836,000 and HK\$61,000 respectively.



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

### 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 2019 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

As at 30th June 2019

	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Investment properties	431,621	–	86,935	344,686
Financial assets at fair value through profit or loss	914,298	613,835	40,271	260,192

As at 31st December 2018

	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Investment properties	434,003	–	89,058	344,945
Financial assets at fair value through profit or loss	1,022,769	606,872	143,716	272,181
Financial liabilities at fair value through profit or loss	(3,218)	(3,218)	–	–

During the six months ended 30th June 2019, 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 2018, a freehold land and building previously classified as investment properties, with revaluated amounts of approximately HK\$74,880,000 and HK\$38,220,000 respectively, were transferred out of Level 3 fair value measurements, upon the transfer of such land and building to property, plant and equipment.

## 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 PRC of approximately HK\$86,935,000 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 fund*

The fair value of the private investment fund mainly invested in cryptocurrencies is 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. cryptocurrencies on trading platforms using direct comparison approach.

#### 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 2019 and 2018 are shown as follows:

	Investment properties HK\$'000	Financial assets at fair value through profit or loss HK\$'000
As at 1st January 2019	344,945	272,181
Exchange realignment	(1,531)	-
Net change in fair value recognised in profit or loss	<u>1,272</u>	<u>(11,989)</u>
<b>As at 30th June 2019</b>	<b><u>344,686</u></b>	<b><u>260,192</u></b>

## 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 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	<u>464,022</u>	<u>–</u>	<u>279,339</u>	<u>–</u>

## 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**

(a) *Investment properties*

The investment property situated in the PRC of approximately HK\$344,686,000 was revalued by Vigers Appraisal & Consulting Limited (“Vigers”), an independent professional qualified valuer, 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% (30th June 2018: 5.75% to 6.25%).

As at 30th June 2019, if the capitalisation rate had been 1% (30th June 2018: 1%) higher/lower while all other variables were held constant, the Group’s net profit would be decreased by approximately HK\$42,794,000 or increased by approximately HK\$52,163,000 respectively (30th June 2018: net loss would be increased by approximately HK\$45,522,000 or decreased by approximately HK\$55,856,000 respectively).

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

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 44% (30th June 2018: 63%).

As at 30th June 2019, if the expected volatility had been 5% (30th June 2018: 5%) higher/lower while all other variables were held constant, the Group’s net profit would remain unchanged or decreased by approximately HK\$15,000 respectively (30th June 2018: net loss would be decreased by approximately HK\$288,000 or increased by approximately HK\$105,000 respectively).

(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 price-to-earnings ratio.

As at 30th June 2019, if the expected price-to-earnings ratio had been 10% (30th June 2018: 10%) higher/lower while all other variables were held constant, the Group’s net profit would be increased/decreased by approximately HK\$2,348,000 respectively (30th June 2018: net loss would be decreased/increased by approximately HK\$21,600,000 respectively).

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

### **3 Revenue and segment information**

Revenue, which is stated net of value added tax where applicable, is recognised at a point in time at which the customers obtain the control of goods, which generally coincides with the time when goods are delivered to customers and the title is passed.

For management purposes, the current major operating segments of the Group are information home appliances, investing, leasing and internet data centre ("IDC").

The information home appliances segment is principally engaged in 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 development, construction, operation, mergers, acquisitions 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.

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.



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

### 3 Revenue and segment information (Continued)

#### Business segments (Continued)

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
<b>REVENUE</b>							
External sales	164,694	-	-	-	-	-	164,694
<b>OTHER REVENUE AND NET LOSS</b>	2,087	(169,524)	4,872	14,764	214	(900)	(148,487)
<b>NET CHANGES IN FAIR VALUE OF INVESTMENT PROPERTIES</b>	-	-	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>
<b>RESULTS</b>							
Segment results	<u>(28,658)</u>	<u>(174,588)</u>	<u>9,109</u>	<u>25,195</u>	<u>(141)</u>	<u>-</u>	<u>(169,083)</u>
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>
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 (Continued)

As at 31st December 2018

	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>							
Segment assets	266,312	1,324,620	100,632	501,824	459	-	2,193,847
Unallocated corporate assets						270,157	<u>270,157</u>
Consolidated total assets							<u><u>2,464,004</u></u>
<b>LIABILITIES</b>							
Segment liabilities	210,496	207,598	22,550	27,090	1,105	-	468,839
Unallocated corporate liabilities						7,233	<u>7,233</u>
Consolidated total liabilities							<u><u>476,072</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 income/(loss) 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 income/(loss) is based on the location at which other revenue and net income/(loss) 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	
	2019 HK\$'000	2018 HK\$'000
The PRC	45,649	7,991
Hong Kong	27,013	29,768
Australia	88,780	108,904
Other overseas markets	44,291	18,031
	<u>205,733</u>	<u>164,694</u>

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

	For the six months ended 30th June 2019					Consolidated HK\$'000
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations HK\$'000	
The PRC	232	21,204	3,827	13,879	-	39,142
Hong Kong	-	77,552	-	-	-	77,552
	<u>232</u>	<u>98,756</u>	<u>3,827</u>	<u>13,879</u>	<u>-</u>	<u>116,694</u>

	For the six months ended 30th June 2018					Consolidated HK\$'000
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	IDC HK\$'000	Other operations 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>

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

4 Other revenue and net income/(loss)

	For the six months ended 30th June		For the three months ended 30th June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Other revenue</b>				
Dividend income from listed securities	5,684	3,108	5,677	2,784
Rental income from investment properties	17,581	18,679	8,028	9,341
Interest income calculated using the effective interest method:				
Interest income from bank deposits	3,152	3,874	1,520	1,720
Interest income from loans receivable	4,303	6,858	1,922	3,644
	<u>30,720</u>	<u>32,519</u>	<u>17,147</u>	<u>17,489</u>
<b>Other net income/(loss)</b>				
Consultancy fee income	1,041	–	518	–
Compensation income	–	3,089	–	3,089
Foreign exchange (loss)/gain, net	(2,235)	11,229	(2,072)	2,406
Net fair value gains/(losses) on financial assets at fair value through profit or loss	93,325	(229,646)	(17,516)	(219,522)
Net fair value gains/(losses) on financial liabilities at fair value through profit or loss	979	4,567	(5)	–
Gain on derecognition of financial liabilities at fair value through profit or loss	–	45,490	–	45,490
Sundry income	231	2,067	203	333
	<u>93,341</u>	<u>(163,204)</u>	<u>(18,872)</u>	<u>(168,204)</u>
	<u>124,061</u>	<u>(130,685)</u>	<u>(1,725)</u>	<u>(150,715)</u>

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

**5 Profit/(Loss) before tax**

Profit/(Loss) before tax has been arrived at after charging/(crediting) the following items:

	For the six months ended 30th June		For the three months ended 30th June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Finance costs</b>				
Borrowing costs for bank and other loans	3,877	4,819	2,016	1,438
Imputed interest expenses on lease liabilities	98	–	60	–
Imputed interest expenses on convertible bonds	–	62,830	–	29,567
	<u>3,975</u>	<u>67,649</u>	<u>2,076</u>	<u>31,005</u>
<b>Other items</b>				
(Reversal of write-down)/				
Write-down of inventories	(837)	2,556	(663)	1,874
Amortisation of prepaid lease payments	–	190	–	95
Amortisation of right-of-use assets	1,602	–	983	–
Depreciation of property, plant and equipment	2,851	3,063	949	1,488
Net losses on disposal of subsidiaries	1,198	–	1,198	–
	<u>1,198</u>	<u>–</u>	<u>1,198</u>	<u>–</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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC enterprise income tax	62	160	62	160
	<u>62</u>	<u>160</u>	<u>62</u>	<u>160</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 corporate income tax ("CIT") rate of 25% on the estimated assessable profits for the six months and three months ended 30th June 2019 and 2018 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 "Participant of Development in Western China" which is exempted for part of PRC enterprise income tax. As a result, the effective CIT rate for the subsidiary is 15% for the six months and three months ended 30th June 2019 (six months and three months ended 30th June 2018: 9%). Certain subsidiaries of the Company have been designated as "Small and Low-Profit Enterprises" which are charged at the effective preferential CIT rates of 5% or 10% respectively subject to the taxable income were no more than RMB1.0 million or between RMB1.0 million to RMB3.0 million for the six months and three months ended 30th June 2019 (six months and three months ended 30th June 2018: effective preferential CIT rates of 10% on the taxable income were no more than RMB1.0 million).

No Hong Kong Profits Tax has been provided for the six months and three months ended 30th June 2019 and 2018 as the Group did not have any assessable profit from Hong Kong for both periods.

### 7 Earnings/(Loss) per share

The calculation of the basic and diluted earnings/(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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Profit/(Loss) attributable to owners of the Company	<b>90,306</b>	<b>(239,176)</b>	<b>(20,022)</b>	<b>(199,054)</b>

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

### 7 Earnings/(Loss) per share (Continued)

	For the six months ended 30th June		For the three months ended 30th June	
	2019 '000	2018 '000	2019 '000	2018 '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 earnings/(loss) per share	1,803,089	1,803,089	1,803,089	1,803,089
Weighted average number of ordinary shares for diluted earnings/(loss) per share	1,803,089	1,803,089	1,803,089	1,803,089
	HK\$	HK\$	HK\$	HK\$
Earnings/(Loss) per share:				
– Basic	0.05	(0.13)	(0.01)	(0.11)
– Diluted (Note)	0.05	(0.13)	(0.01)	(0.11)

*Note:*

Diluted earnings per share is the same as the basic earnings per share for the six months ended 30th June 2019 because the potential new ordinary shares to be issued on exercise of the outstanding share options under the Company's share option scheme have an anti-dilutive effect on the basic earnings per share for the period.

Diluted loss per share is the same as the basic loss per share for the three months ended 30th June 2019 because the potential new ordinary shares to be issued on exercise of the outstanding share options under the Company's share option scheme have an anti-dilutive effect on the basic loss per share for the period.

Diluted loss per share was the same as the basic loss per share for the six months and three months ended 30th June 2018 because the potential new ordinary shares to be issued on exercise of the outstanding share options under the Company's share option scheme and the potential conversion of convertible bonds matured during the periods had an anti-dilutive effect on the basic loss per share for the periods.

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

### 8 Property, plant and equipment

During the period, the Group expended approximately HK\$39,303,000 and HK\$2,791,000 (six months ended 30th June 2018: approximately HK\$9,560,000 and HK\$273,000) on the construction in progress of the Group's IDC in the United States and the acquisition of property, plant and equipment for the expansion of the Group's operations respectively.

### 9 Loans receivable

	30th June 2019 HK\$'000	31st December 2018 HK\$'000
Loans receivable from third parties due within one year	<b>108,680</b>	119,937

Note:

As at 30th June 2019, approximately RMB95,606,000 (equivalent to approximately HK\$108,680,000) loans to four independent third party borrowers were due within six months, which are unsecured and interest-bearing at 8% per annum.

As at 31st December 2018, approximately RMB105,089,000 (equivalent to approximately HK\$119,937,000) loans to an independent third party borrower were secured by a personal guarantee provided by a major shareholder of the borrower. The loans were interest-bearing at 8% per annum. During the six months ended 30th June 2019, principal amount of RMB100,000,000 (equivalent to approximately HK\$113,675,000) and accrued interest of approximately HK\$9,195,000 were repaid.



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

**10 Trade and other receivables**

		<b>30th June 2019</b>	31st December 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	(a)	<b>138,928</b>	170,463
Less: Loss allowance		<b>(893)</b>	(897)
		<b>138,035</b>	169,566
Other receivables, net of loss allowance		<b>7,629</b>	2,617
Prepayments and deposits	(b)	<b>170,983</b>	26,952
		<b>316,647</b>	199,135

Notes:

- (a) The ageing analysis of trade receivables (net of loss allowance) by invoice date at the end of the reporting period is as follows:

	<b>30th June 2019</b>	31st December 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	<b>19,160</b>	66,920
31 – 60 days	<b>17,711</b>	79,721
61 – 90 days	<b>12,414</b>	7,517
Over 90 days	<b>88,750</b>	15,408
	<b>138,035</b>	169,566

- (b) As at 30th June 2019, included in prepayments and deposits is a security deposit in an escrow account of USD20,000,000 (equivalent to approximately HK\$156,000,000) in relation to the construction of the Group's IDC in the United States.

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

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

	Note	30th June 2019		31st December 2018	
		Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Equity securities listed in Hong Kong	(a)	449,733	-	470,341	-
Equity securities listed outside Hong Kong	(a)	129,936	-	127,401	-
Debt securities listed outside Hong Kong		-	-	7,989	-
Money market funds	(a)	34,166	-	1,141	-
Private investment funds	(b)	243,934	-	269,954	-
Unlisted equity securities outside Hong Kong	(c)	56,529	-	67,745	-
Unlisted debt securities		-	-	78,198	-
		<u>914,298</u>	<u>-</u>	<u>1,022,769</u>	<u>-</u>
Derivative financial instruments:					
Forward exchange contract		-	-	-	(3,218)
		<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,218)</u>
Total financial assets/(liabilities) at fair value through profit or loss		<u>914,298</u>	<u>-</u>	<u>1,022,769</u>	<u>(3,218)</u>
Less: Current portion		<u>(536,098)</u>	<u>-</u>	<u>(654,396)</u>	<u>3,218</u>
Non-current portion		<u>378,200</u>	<u>-</u>	<u>368,373</u>	<u>-</u>

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

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

*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.
- (b) Included in the private investment funds were 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\$203,663,000 (31st December 2018: approximately HK\$204,436,000) and another one invested in cryptocurrencies and unlisted equity investment with carrying amount of approximately HK\$40,271,000 (31st December 2018: approximately HK\$65,518,000) as at 30th June 2019.
- (c) The investment in unlisted equity securities of a company incorporated in the Cayman Islands was not held for trading. The valuation techniques and inputs applied for fair value measurement have been disclosed in note 2.

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

### 12 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 2019 and 31st December 2018 with brief description of the investee companies as follows:

#### As at 30th June 2019

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HKD'000	Carrying amount as at 30th June 2019 HKD'000	Accumulated unrealised holding gain/(loss) arising on revaluation from the date of acquisition to 30th June 2019 HKD'000	Dividend received for the six months ended 30th June 2019 HKD'000	Classification of financial assets
<b>Listed equity securities</b>									
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		3,000,000	0.04%	120,766	281,400	160,634	3,467	Fair value through profit or loss ("FVPL")
007199	Zhejiang East Crystal Electronic Co. Ltd.		3,332,000	1.37%	66,019	55,338	(10,681)	-	FVPL
0880	SJM Holdings Limited		4,000,000	0.07%	37,087	35,560	(1,527)	840	FVPL
607238	Guangzhou Automobile Group Co., Ltd. (A shares)		2,805,973	0.04%	52,077	34,159	(17,958)	828	FVPL
8137	Honbridge Holdings Limited		46,774,000	0.47%	63,208	34,145	(29,063)	-	FVPL
6060	ZhongAn Online P & C Insurance Co., Ltd. (H shares)		1,552,700	0.33%	43,718	33,305	(10,413)	-	FVPL
<b>Money market funds</b>									
	China Minsheng Bank Corp., Ltd	(i)	N/A	N/A	33,534	33,598	64	-	FVPL
<b>Private investment funds</b>									
	Avalon Global Fixed Income Fund LP ("Avalon Fund")	(ii)	N/A	N/A	199,500	209,663	4,163	-	FVPL
	iSun Global Restructuring-led Partnership Fund LLP ("iSun Fund")	(iii)	N/A	N/A	66,500	40,271	(26,229)	-	FVPL
<b>Unlisted equity securities</b>									
	APAL Holdings Limited ("APAL")	(iv)	100,000,000	9.47%	78,000	56,529	(21,471)	-	FVPL

The above investments represent in aggregate over 88.4% 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 2019.

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

## 1.2 Investment portfolio (Continued)

As at 31st December 2018

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK\$'000	Carrying amount 31st December 2018 HK\$'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
<b>Listed equity securities</b>									
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		4,000,000	0.05%	163,816	276,600	124,984	-	FVPL
8137	Honbridge Holdings Limited		46,774,000	0.47%	63,208	45,839	-	-	FVPL
6060	ZhongAn Online P & C Insurance Co., Ltd. (H Shares)		1,552,700	0.33%	43,718	38,895	-	-	FVPL
0880	SJM Holdings Limited		4,827,000	0.09%	44,755	35,237	2,357	724	FVPL
002199	Zhejiang East Crystal Electronic Co., Ltd.		3,332,000	1.37%	66,283	34,872	(31,459)	-	FVPL
601238	Guangzhou Automobile Group Co., Ltd. (A Shares)		2,805,973	0.04%	52,086	32,548	(16,692)	954	FVPL
<b>Unlisted debt securities</b>									
	US Treasury Enhanced Yield Fiduciary Notes		N/A	N/A	78,000	78,198	210	-	FVPL
<b>Private investment funds</b>									
	Avalon Fund	(iv)	N/A	N/A	199,500	204,436	12,150	-	FVPL
	Sun Fund	(iv)	N/A	N/A	66,500	65,518	18,398	-	FVPL
<b>Unlisted equity securities</b>									
	APAL	(iv)	100,000,000	9.47%	78,000	67,745	(10,311)	-	FVPL

The above investments represent in aggregate over 86.0% 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 2018.

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

### 12 Investment portfolio (Continued)

#### Notes:

- (i) The money market fund administrated by China Minsheng Bank Corp., Ltd principally invests in low risk and high liquidity financial instruments. The objective of the fund is pursuing superior return compared with similar products in the market and ensuring the stability of the investment capital. During the six months ended 30th June 2019, the quoted annualised daily return rate is 3.0% per annum.
- (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 2019, the fair value of the partnership is approximately HK\$251,899,000 (31st December 2018: approximately HK\$252,855,000) 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 2019, the fair value of the partnership is approximately HK\$40,271,000 (31st December 2018: approximately HK\$65,518,000) 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 announcement of the Company dated 25th July 2017 and 9th February 2018.

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

### 12 Investment portfolio (Continued)

Notes: (Continued)

- (iv) 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 2019, the fair value of the unlisted equity securities was approximately HK\$596,954,000 (31st December 2018: approximately HK\$715,389,000) by reference to the valuation provided by an independent professional qualified valuer using direct comparison approach with unobservable inputs.

### 13 Trade and other payables

	30th June 2019 HK\$'000	31st December 2018 HK\$'000
Trade payables (Note)	108,392	124,805
Contract liabilities	4,302	17,484
Other payables	21,316	24,908
Accruals	32,783	32,017
	<u>166,793</u>	<u>199,214</u>

Note:

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

	30th June 2019 HK\$'000	31st December 2018 HK\$'000
0 – 30 days	31,543	39,732
31 – 60 days	30,694	24,112
61 – 90 days	6,170	41,131
Over 90 days	39,985	19,830
	<u>108,392</u>	<u>124,805</u>

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

14 **Bank and other loans**

		30th June 2019	31st December 2018
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Current and secured</b>			
Bank loan with a repayment on demand clause	(a)	<b>120,000</b>	200,000
Term loans from banks with repayment on demand clause	(a)	<b>31,574</b>	38,651
Other loan with a repayment on demand clause	(b)	<b>6,573</b>	6,600
		<b>158,147</b>	245,251

*Notes:*

- (a) As at 30th June 2019, the bank loans carried variable interest rates ranging from 2.58% to 5.44% (31st December 2018: 2.58% to 6.09%) per annum. The bank loans are secured by the assets of the Group as set out in note 15.
- (b) This represented a margin loan from a securities broker carried interest rates of 6.4% (31st December 2018: 6.4% to 7.6%) per annum, subject to periodic review. The loan is secured by funds and listed securities held by the securities broker of approximately RMB1,252,000 (equivalent to approximately HK\$1,424,000) and RMB68,800,000 (equivalent to approximately HK\$78,209,000) respectively (31st December 2018: approximately RMB9,830,000 (equivalent to approximately HK\$11,219,000) and RMB37,789,000 (equivalent to approximately HK\$43,128,000) respectively). According to the margin loan agreement, the pledged assets have to be maintained at certain ratio of the loan amount.



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

**15 Pledge of assets**

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

	<b>30th June 2019 HK\$'000</b>	<b>31st December 2018 HK\$'000</b>
(a) Investment properties	<b>69,597</b>	89,058
(b) Buildings	<b>2,651</b>	5,336
(c) Leasehold property	<b>72,411</b>	73,913
(d) Leasehold improvements	<b>142</b>	153
(e) Prepaid lease payments	–	7,762
(f) Right-of-use assets	<b>5,891</b>	–
(g) Financial assets at fair value through profit or loss	<b>359,609</b>	121,326
(h) Bank deposits	<b>83,956</b>	254,660

**16 Share capital**

	<b>Number of shares</b>		<b>Amount</b>	
	<b>30th June 2019 '000</b>	<b>31st December 2018 '000</b>	<b>30th June 2019 HK\$'000</b>	<b>31st December 2018 HK\$'000</b>
<b>Authorised:</b>				
At beginning and end of period/year				
Ordinary shares of HK\$0.025 each	<b>8,000,000</b>	8,000,000	<b>200,000</b>	200,000
<b>Issued and fully paid:</b>				
At beginning and end of period/year				
Ordinary shares of HK\$0.025 each	<b>1,803,089</b>	1,803,089	<b>45,077</b>	45,077

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

### 17 Disposal of a subsidiary

In May 2019, the Group entered into a sale and purchase agreement with an independent third party to dispose its entire equity interest in Beijing En Tu Technology Company Limited\* (北京恩兔科技有限公司) (“En Tu”), which is incorporated in the PRC, at a total consideration of RMB100,000 (equivalent to approximately HK\$114,000). The disposal was completed in June 2019.

	For the six months ended 30th June 2019 HK\$'000
<b>Net assets disposed of</b>	
Trade receivables	86
Other receivables	1,455
Right-of-use assets	58
Cash and bank balances	55
Other payables	(7)
Lease liabilities	(60)
	<u>1,587</u>
Reclassification adjustment from equity to profit or loss upon disposal:	
Translation reserves	(250)
Loss on disposal of a subsidiary	<u>(1,223)</u>
<b>Total consideration satisfied by cash consideration</b>	<u>114</u>
<b>Net cash flow on disposal of a subsidiary</b>	
Cash consideration received	114
Cash and cash equivalents disposed of	<u>(55)</u>
<b>Net inflow of cash and cash equivalents</b>	<u>59</u>

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

### **18 Capital commitment**

In April 2019, the Company's indirectly wholly-owned subsidiary, RiCloud Corp. and a United States private company entered into a construction contract at contract sum of approximately USD62,495,000 (equivalent to approximately HK\$487,459,000) in respect of construction of phase one of the Group's IDC in the United States. The Group has deposited USD20,000,000 (equivalent to approximately HK\$156,000,000) into the escrow account as security deposit of the construction. At the end of the reporting period, the Group has remaining capital commitment for the aforesaid construction of approximately USD39,000,000 (equivalent to approximately HK\$304,200,000).

### **19 Events after the reporting period**

On 14th July 2019, the Company entered into two subscription agreements (the "Subscription Agreements") with two independent third parties (the "Subscribers") pursuant to which the Company has conditionally agreed to allot and issue and the Subscribers have conditionally agreed to subscribe for an aggregate of 270,000,000 new shares of the Company (the "Subscription Shares") at the subscription price of HK\$0.30 per Subscription Share.

On 29th July 2019, 270,000,000 new shares have been issued to the Subscribers in accordance with the terms and conditions of the Subscription Agreements. The net proceeds, after deducting the relevant expenses, approximately HK\$80,800,000 are intended to be used for the Group's IDC project in San Jose, California, the United States. Details of the subscriptions are set out in the Company's announcements dated 14th July 2019 and 29th July 2019.

### **20 Approval of the unaudited condensed consolidated interim financial statements**

The unaudited condensed consolidated interim financial statements were approved by the Board on 8th August 2019.

## RESERVES

Movements in the reserves of the Group during the six months ended 30th June 2019 (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 2018: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Revenue and Gross Profit

During the Period, the Group's overall revenue amounted to approximately HK\$205.7 million, representing an increase of 24.9% as compared with the same period of last year. The increase in revenue is mainly due to the increase in revenue derived from the People's Republic of China (the "PRC") market as further discussed below. At the same time, the Group has outsourced the production since the second half of last year to reduce production and operating costs. The overall gross profit margin of the Group improved to 8.0% for the Period (six months ended 30th June 2018: 2.5%). Consequently, the overall gross profit of the Group for the Period increased significantly by 306.1% to approximately HK\$16.5 million as compared with the same period of last year.

#### Operating Results

##### *Other Revenue and Net Income/(Loss)*

The Group's other revenue and net income increased significantly to approximately HK\$124.1 million for the Period (six months ended 30th June 2018: other revenue and net loss of approximately HK\$130.7 million), mainly because the Group recorded net fair value gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$94.3 million (six months ended 30th June 2018: net losses of approximately HK\$179.6 million) due to the significant rebound in the stock markets during the Period. This was also one of the major reasons for the turnaround to profit attributable to owners of the Company for the Period.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Operating Results *(Continued)*

##### *Changes in Fair Value of Investment Properties*

The Group recognised net revaluation losses of approximately HK\$0.5 million on its investment properties for the Period (six months ended 30th June 2018: net revaluation gains of approximately HK\$20.6 million).

##### *Operating Expenses*

Despite an increase in the Group's overall revenue, the Group's distribution and selling expenses decreased to approximately HK\$4.7 million for the Period (six months ended 30th June 2018: approximately HK\$7.3 million). At the same time, the Group's general and administrative expenses also decreased by 30.7% to approximately HK\$37.9 million for the Period (six months ended 30th June 2018: approximately HK\$54.7 million).

##### *Other Operating Expenses*

Other operating expenses of the Group increased to approximately HK\$3.8 million for the Period (six months ended 30th June 2018: approximately HK\$3.4 million). This increase was mainly due to the Group's recognition of the net losses on the disposal of subsidiaries of approximately HK\$1.2 million during the Period.

##### *Finance Costs*

No convertible bond was issued and outstanding during the Period, as a result, no imputed interest expenses was recorded for the Period (six months ended 30th June 2018: approximately HK\$62.8 million), which caused the finance costs of the Group to significantly decrease to approximately HK\$4.0 million for the Period (six months ended 30th June 2018: approximately HK\$67.6 million).

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **FINANCIAL REVIEW** *(Continued)*

#### **Operating Results** *(Continued)*

##### *Profit for the Period*

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company of approximately HK\$90.3 million for the Period (six months ended 30th June 2018: loss attributable to owners of the Company of approximately HK\$239.2 million).

#### **Liquidity and Financial Resources**

As at 30th June 2019, the Group had net current assets of approximately HK\$1,005.4 million. The Group had cash and bank balances and pledged bank deposits of approximately HK\$283.6 million and HK\$84.0 million respectively. The Group's financial resources were funded mainly by bank and other loans and its shareholders' funds. As at 30th June 2019, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 4.1 times and the gearing ratio, as measured by total liabilities divided by total equity, was 17.2%. Hence, as at 30th June 2019, 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 15 to the unaudited condensed consolidated interim financial statements in this report.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Fundraising Activities and Event After the Reporting Period

On 29th July 2019, the Company completed the issuance of 270,000,000 new shares at the subscription price of HK\$0.30 per subscription share to two subscribers who are not connected persons of the Company (the "Subscription"). The net proceeds derived from the Subscription amounted to approximately HK\$80.8 million are intended to be used for the Group's internet data centre ("IDC") project in the United States. Details of the Subscription are set out in the Company's announcements dated 14th July 2019 and 29th July 2019.

#### 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 16 to the unaudited condensed consolidated interim financial statements in this report.

#### Significant Investments/Material Acquisitions and Disposals

Save as disclosed in this report, the Group had no significant investment and no material acquisition or disposal of subsidiaries, associates and joint ventures during the Period.

#### Segment Information

The Group's information home appliances ("IHA") business is principally engaged in sales and distribution of IHA and complementary products. The total revenue of the IHA segment for the Period and the three months ended 30th June 2019 increased by 24.9% and 71.9% to approximately HK\$205.7 million and HK\$78.8 million respectively as compared with the same periods of last year. Moreover, the Group has outsourced the production since the second half of last year to reduce production and operating costs. As a result, the overall gross profit margin of the Group improved to 8.0% for the Period (six months ended 30th June 2018: 2.5%). Consequently, the loss incurred by the IHA segment reduced to approximately HK\$4.2 million for the Period (six months ended 30th June 2018: approximately HK\$28.7 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Segment Information *(Continued)*

The Group's investing segment is principally engaged in trading of securities and investing in financial instruments. This segment recorded a gain of approximately HK\$94.4 million for the Period (six months ended 30th June 2018: a loss of approximately HK\$174.6 million). The main reason was that the Group recorded net fair value gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$94.3 million (six months ended 30th June 2018: net losses of approximately HK\$179.6 million) due to the significant rebound in the stock markets during the Period. This was also one of the major reasons for the turnaround to profit attributable to owners of the Company for the Period.

The leasing segment of the Group comprises leasing out of properties. This segment recorded a loss of approximately HK\$0.4 million for the Period (six months ended 30th June 2018: a profit of approximately HK\$9.1 million) as the Group recognised a net revaluation loss of approximately HK\$1.8 million on its investment properties for the Period (six months ended 30th June 2018: net revaluation gains of approximately HK\$7.3 million). The other operations segment of the Group comprises trading of miscellaneous materials. This segment recorded a loss of approximately HK\$55,000 for the Period (six months ended 30th June 2018: approximately HK\$141,000).

The IDC segment of the Group comprises development, construction, operation, mergers, acquisitions and leasing out of properties used as IDC. This segment recorded a profit of approximately HK\$11.9 million for the Period (six months ended 30th June 2018: approximately HK\$25.2 million). The profit was derived from the rental income generated from leasing out of IDC of approximately HK\$13.9 million (six months ended 30th June 2018: approximately HK\$14.8 million) and a revaluation gain of approximately HK\$1.3 million on an investment property for the Period (six months ended 30th June 2018: approximately HK\$13.3 million) respectively. As this segment is still in the investing stage, the Group will continue to deploy resources in this segment.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Segment Information *(Continued)*

Geographical markets of the Group were mainly located in overseas during the Period. Although the Group is actively exploring new overseas markets, the revenue in the Australian market decreased by 18.5% to approximately HK\$88.8 million. As a result, the overall revenue generated from the overseas markets for the Period only increased by 4.8% to approximately HK\$133.1 million as compared with the same period of last year. In the Hong Kong market, as the market is getting saturated, the Group's overall revenue in the Hong Kong market decreased by 9.3% to approximately HK\$27.0 million for the Period as compared with the same period of last year. As to the PRC market, the increased sales of raw materials to outsourced producers led to the significant increase in the overall revenue in the PRC market to approximately HK\$45.6 million for the Period (six months ended 30th June 2018: approximately HK\$8.0 million). As such, the overall revenue of the Group increased by 24.9% to approximately HK\$205.7 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 in United States dollars ("USD"). The assets of the Group were mainly denominated in RMB and the remaining portions were 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, depreciation in RMB against HKD resulted in the net exchange losses of approximately HK\$2.2 million (six months ended 30th June 2018: net gains of approximately HK\$11.2 million). As at 30th June 2019, 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 2019, the Group had over 160 (30th June 2018: over 250) full time employees, of which 19 (30th June 2018: 32) 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\$26.5 million for the Period (six months ended 30th June 2018: approximately HK\$47.1 million). The decrease in the staff costs was mainly attributable to the fact that the Group has outsourced the production since the second half of last year and streamlined personnel as compared with the same period of last year. 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

The Group's IHA business is principally engaged in sales and distribution of IHA and complementary products. Products launched by the Group in the markets include high digital set-top box ("STB"), hybrid dual mode STB, Over-the-top ("OTT")/Internet Protocol Television ("IPTV") STB, STB equipped with an Android system, etc.. Under the intense market competition condition, the Group is facing many opportunities as well as confronting severe challenges. During the Period, the Group's overall revenue amounted to approximately HK\$205.7 million, representing an increase of 24.9% as compared with the same period of last year. The increase in revenue is mainly due to the Group's increased sales of raw materials to outsourced producers leading to the significant increase in the overall revenue in the PRC market to approximately HK\$45.6 million for the Period (six months ended 30th June 2018: approximately HK\$8.0 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

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, Russia, Spain etc.. At the same time, the Group is actively exploring new markets in Europe. Although sales orders from some overseas customers increased for the Period, the revenue from the Australian market decreased by 18.5% to approximately HK\$88.8 million as compared with the same period of last year. As a result, the overall revenue of the overseas markets for the Period only increased by 4.8% to approximately HK\$133.1 million as compared with the same period of last year.

As one of the leading suppliers of IPTV STB in Hong Kong, the Group still maintains cooperative relationships with a Hong Kong telecommunication operator and a well-known Hong Kong TV programme operator. However, as the Hong Kong market is getting saturated, the Group's overall revenue in the Hong Kong market decreased by 9.3% to approximately HK\$27.0 million for the Period as compared with the same period of last year.

With respect to the IDC business, 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 generated from leasing of IDC was approximately HK\$13.9 million (six months ended 30th June 2018: approximately HK\$14.8 million). In respect of the Group's project on construction of its first IDC in the United States, the Group entered into a construction contract for the phase one with a United States private company at contract sum of approximately USD62.5 million (equivalent to approximately HK\$487.5 million) in April 2019. The project is currently entering the construction stage with phase one expected to be delivered in March 2020 and phase two expected to be completed by the end of 2020. As the IDC business is still at the investing stage, the Group will continue to deploy resources in this business.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

With respect to investment business, the Group made some investments in the secondary market and private investment funds during the Period. Based on the value investing strategy, the Group only selected investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment goals. 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, due to the significant rebound in the stock markets, the Group recognised net fair value gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$94.3 million (six months ended 30th June 2018: net losses of approximately HK\$179.6 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 may bring uncertain impact on the development of the IHA business of the Group. For the IDC business, factors such as 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 environmentally-friendly corporation and always takes 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, the Group has complied with all applicable laws and regulations in the PRC, Hong Kong and the United States in all material respects. 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 them to ensure compliance.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS PROSPECT

2019 is still challenging for the Group while the global economy and markets fall short of expectations and capital markets are subject to constant fluctuations, and the Group will be confronted with more severe challenges in the future. 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 expands the market of small and medium-sized overseas operators with an objective to increase its operating revenue and to boost the overall gross profit margin of its IHA business. The Group expects its IHA business to achieve a better performance in near future.

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 "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.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **BUSINESS PROSPECT** *(Continued)*

As for the IDC business, completed the tender for the first phase contractor in April 2019, it is currently entering the construction stage of which phase one is expected to be delivered in March 2020 and phase two is expected to be completed by end of 2020. The Group will start a feasibility study for a second data center in the United States hereafter. As further mentioned in an announcement of the Company dated 29th July 2019, 270,000,000 subscription shares have been successfully issued to two subscribers at the subscription price of HK\$0.30 per subscription share with net proceeds of approximately HK\$80.8 million which will be fully applied for construction of the Group's first IDC in the United States. The Group, through preparation of the construction of the Group's first IDC in the United States, 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 future, the Group will also actively cooperate with various parties through new constructions or mergers and acquisitions in the PRC, Hong Kong and overseas markets, in order to develop into an internationally renowned and leading cloud computing enterprise in the era of big data.

The market outlook remains highly uncertain in 2019. Our management and all our staff will carry on with the spirit of dedication, diligence, passion, and entrepreneurship, focus on the objective and dare to shoulder responsibilities with assiduity and composure so as to provide customers with exquisite IHA products and high-quality IDC services "with the spirit of craftsmanship" and to create more value for shareholders and society.

### **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 and 8.64% of the total number of shares in issue at the date of this report.

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 therefore shall 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 2019

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Number of shares issuable under the Share Options					Outstanding as at 30th June 2019
				Outstanding as at 1st January 2019	Granted during the period	Reclassification of category during the period	Exercised during the period	Lapsed during the period	
<b>Directors</b>									
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	39,998,776	–	(252,000)	–	(1,176,000)	38,570,776
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	920,000	–	–	–	–	920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	18,630,232	–	252,000	–	(6,046,000)	12,836,232
				<u>75,049,008</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(7,222,000)</u>	<u>67,827,008</u>
Outstanding as at 30th June 2019									
									<u>67,827,008</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)

For the six months ended 30th June 2018

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Outstanding as at 1st January 2018	Number of shares issuable under the Share Options				Outstanding as at 30th June 2018
					Granted during the period	Reclassification of category during the period	Exercised during the period	Lapsed during the period	
<b>Directors</b>									
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
<b>Continuous contract employees</b>	16th January 2015	2.2	16th January 2015 – 15th January 2020	50,516,776	–	–	–	(1,724,000)	48,792,776
<b>Suppliers of goods or services</b>	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	–	–	–	–	1,920,000
<b>Other eligible participants</b>	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)

- \* 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 has been removed with 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) 7,222,000 (six months ended 30th June 2018: 9,724,000) Share Options 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 <sup>#</sup>	46%
Expected dividend yield	2.27%
Expected life	3 years to 5 years

- <sup>#</sup> 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 2019, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or 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 2019 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 30th June 2019
				Outstanding as at 1st January 2019	Granted during the period	Exercised during the period	Lapsed during the period	
<b>Directors</b>								
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
				15,500,000	-	-	-	15,500,000

Further details regarding the Share Option 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 2019, 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

As at 30th June 2019, 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&4)	Corporate	450,357,200	Beneficial owner	24.98%
Lontrue Co., Ltd* (朗源股份有限公司) ("Lontrue") (Note 1&4)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Honbridge Holdings Limited (Stock Code: 8137) ("Honbridge") (Note 2&4)	Corporate	450,357,200	Person having a security interest in shares	24.98%
Hong Bridge Capital Limited ("Hong Bridge") (Note 2&4)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Mr. He Xuechu (Note 2&4)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Ms. Foo Yatyan (Note 2&4)	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%

\* For identification purposes only

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

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

*Notes:*

1. 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 2019.
2. 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 spouse.
3. Mr. Zhu Weisha, a former Director, 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.
4. The Board noted that an announcement was published by Honbridge on 16th July 2019 on the website of the Stock Exchange, claiming that Cloudrider failed to propose a proper repayment plan and Honbridge has started the procedures for the enforcement of the relevant security (the "Enforcement"), including 450,357,200 shares of the Company. In the event that the Enforcement takes place in full, Cloudrider's shareholding interests in the Company may be reduced from 24.98% to 0%. For details, please refer to the announcement of the Company dated 18th July 2019.

Save as disclosed above, as at 30th June 2019, 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 contracts concerning the management or 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.

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 15 of the GEM Listing Rules during the Period.

## 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. None of the members of the Audit Committee is a former partner of the auditors of the Company.

The principal duties of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the Company's financial reporting system, risk management, internal control systems and relationship with external auditors, 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.



## **AUDIT COMMITTEE** *(Continued)*

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 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 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, 8th August 2019

*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](http://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](http://www.yuxing.com.cn).*