



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
2017

* for identification purposes only

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

HIGHLIGHTS FOR THE SIX-MONTH PERIOD

- For the six months and three months ended 30th June 2017, overall revenue of the Group was approximately HK\$180.4 million and HK\$108.2 million respectively, representing a significant decrease of 42.6% and 50.2% respectively in comparison to the same periods of 2016. While the Group recorded the overall gross profit of approximately HK\$9.6 million and HK\$8.2 million for the six months and three months ended 30th June 2017 respectively, representing a decrease of 75.6% and 64.7% respectively in comparison to the same periods of 2016.
- Loss attributable to owners of the Company for the six months and three months ended 30th June 2017 amounted to approximately HK\$10.9 million and HK\$6.5 million respectively (six months and three months ended 30th June 2016: loss attributable to owners of the Company of approximately HK\$84.0 million and profit attributable to owners of the Company of approximately HK\$7.4 million respectively).
- Basic loss per share for the six months and three months ended 30th June 2017 were HK0.6 cent and HK0.4 cent respectively (six months and three months ended 30th June 2016: basic loss per share HK4.7 cents and basic earnings per share HK0.4 cent respectively).
- Total equity attributable to owners of the Company as at 30th June 2017 was approximately HK\$2,139.1 million (31st December 2016: approximately HK\$1,958.8 million) or net assets per share of HK\$1.2 (31st December 2016: HK\$1.1).
- The Board does not recommend the payment of any interim dividend for the six months ended 30th June 2017 (six months ended 30th June 2016: 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 2017 together with the comparative unaudited figures for the same periods in 2016, 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 2017

	Note	For the six months ended 30th June		For the three months ended 30th June	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	3	180,408	314,116	108,203	217,265
Cost of sales		(170,780)	(274,717)	(100,027)	(194,083)
Gross profit		9,628	39,399	8,176	23,182
Other revenue and net income/(loss)	4	59,174	(32,635)	27,784	38,937
Distribution and selling expenses		(7,808)	(9,737)	(3,871)	(5,809)
General and administrative expenses		(58,447)	(60,447)	(29,282)	(33,846)
Other operating expenses		(2,441)	(15,940)	(456)	(12,817)
Net changes in fair value on investment properties		(3,090)	602	(3,090)	602
(Loss)/Profit from operations		(2,984)	(78,758)	(739)	10,249
Finance costs	5	(7,915)	(5,244)	(5,749)	(2,860)
(Loss)/Profit before tax	5	(10,899)	(84,002)	(6,488)	7,389
Income tax expenses	6	(13)	(36)	(13)	(36)
(Loss)/Profit for the period		(10,912)	(84,038)	(6,501)	7,353
(Loss)/Profit attributable to:					
Owners of the Company		(10,912)	(84,026)	(6,501)	7,368
Non-controlling interests		-	(12)	-	(15)
		(10,912)	(84,038)	(6,501)	7,353
(Loss)/Earnings per share	7				
– Basic		(0.61) cent	(4.66) cents	(0.36) cent	0.409 cent
– Diluted		(0.61) cent	(4.66) cents	(0.36) cent	0.405 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months and three months ended 30th June 2017

	For the six months ended 30th June		For the three months ended 30th June	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
(Loss)/Profit for the period	(10,912)	(84,038)	(6,501)	7,353
Other comprehensive income/(loss):				
Items that are reclassified or may be reclassified subsequently to profit or loss:				
Available-for-sale financial assets				
Change in fair value during the period	143,078	(77,152)	74,789	(11,085)
Less: Reclassification of net changes in fair value to profit or loss upon disposal	–	(36,083)	–	(36,083)
Exchange differences arising on translation of PRC subsidiaries	10,482	(6,292)	7,806	(8,575)
Other comprehensive income/(loss) for the period	153,560	(119,527)	82,595	(55,743)
Total comprehensive income/(loss) for the period	142,648	(203,565)	76,094	(48,390)
Total comprehensive income/(loss) attributable to:				
Owners of the Company	142,631	(203,553)	76,081	(48,375)
Non-controlling interests	17	(12)	13	(15)
	142,648	(203,565)	76,094	(48,390)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30th June 2017

		(Unaudited) As at 30th June 2017 HK\$'000	(Audited) As at 31st December 2016 HK\$'000
	Note		
NON-CURRENT ASSETS			
Investment properties	8	222,161	114,226
Property, plant and equipment	8	39,891	41,776
Prepaid lease payments		10,666	10,522
Available-for-sale financial assets	9	716,243	573,165
Investment in an insurance contract		11,263	11,178
Deposit for potential acquisition of subsidiaries	10	218,010	–
Other receivables	12	–	2,599
Pledged bank deposits		–	335,383
		<u>1,218,234</u>	<u>1,088,849</u>
CURRENT ASSETS			
Inventories		59,617	51,212
Loans receivable	11	115,993	223,589
Trade and other receivables	12	105,595	143,669
Prepaid lease payments		357	346
Financial assets at fair value through profit or loss	13	655,662	432,192
Income tax recoverable		584	566
Pledged bank deposits		345,662	1,638
Cash and bank balances		565,675	603,524
		<u>1,849,145</u>	<u>1,456,736</u>
CURRENT LIABILITIES			
Trade and other payables	15	124,337	130,178
Dividend payables		31	31
Bank loans	16	324,935	443,674
Convertible bonds	17	410,722	–
Financial liabilities at fair value through profit or loss	13	56,171	–
Income tax payable		281	1,443
		<u>916,477</u>	<u>575,326</u>
NET CURRENT ASSETS		<u>932,668</u>	<u>881,410</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,150,902</u>	<u>1,970,259</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		10,705	10,386
NET ASSETS		<u>2,140,197</u>	<u>1,959,873</u>
CAPITAL AND RESERVES			
Share capital	19	45,077	45,077
Reserves		2,094,067	1,913,760
Equity attributable to owners of the Company		2,139,144	1,958,837
Non-controlling interests		1,053	1,036
TOTAL EQUITY		<u>2,140,197</u>	<u>1,959,873</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2017

	Attributable to owners of the Company										Non-controlling interests	Total equity		
	Share capital	Share premium	Share option reserves	Statutory reserves	Contributed surplus	Share option reserves	Investment revaluation reserves	Convertible bond reserves	Property revaluation reserves	Translation reserves			Other reserves	Retained profits
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 1st January 2017	45,077	133,249	8,668	234,621	70,850	(24,446)	-	17,264	31,312	(1,113)	1,443,355	1,958,837	1,036	1,959,873
Loss for the period	-	-	-	-	-	-	-	-	-	-	(10,912)	(10,912)	-	(10,912)
Other comprehensive income:														
Change in fair value of available-for-sale financial assets	-	-	-	-	-	143,078	-	-	-	-	-	143,078	-	143,078
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	10,465	-	-	10,465	17	10,482
Total other comprehensive income	-	-	-	-	-	143,078	-	-	10,465	-	-	153,543	17	153,560
Total comprehensive income for the period	-	-	-	-	-	143,078	-	-	10,465	-	(10,912)	142,631	17	142,648
Transactions with owners: Contributions and distributions														
Share options lapsed	-	-	-	-	(274)	-	-	-	-	-	274	-	-	-
Issue of convertible bonds	-	-	-	-	-	-	37,676	-	-	-	-	37,676	-	37,676
Total transactions with owners	-	-	-	-	(274)	-	37,676	-	-	-	274	37,676	-	37,676
As at 30th June 2017	45,077	133,249	8,668	234,621	70,576	118,632	37,676	17,264	41,777	(1,113)	1,432,717	2,139,144	1,053	2,140,197

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

For the six months ended 30th June 2017

		Attributable to owners of the Company													
		Share capital	Share premium	Statutory reserves	Contributed surplus	Share option reserves	Investment revaluation reserves	Convertible bond reserves	Property revaluation reserves	Translation reserves	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
		HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
As at 1st January 2016		45,036	128,416	8,668	234,621	57,655	190,041	-	16,023	54,348	(1,113)	1,389,024	2,122,719	1,073	2,123,792
Loss for the period		-	-	-	-	-	-	-	-	-	-	(84,026)	(84,026)	(12)	(84,038)
Other comprehensive loss:															
Change in fair value of available-for-sale financial assets		-	-	-	-	-	(77,152)	-	-	-	-	-	(77,152)	-	(77,152)
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal		-	-	-	-	-	(36,083)	-	-	-	-	-	(36,083)	-	(36,083)
Exchange differences arising on translation of PRC subsidiaries		-	-	-	-	-	-	-	-	(6,292)	-	-	(6,292)	-	(6,292)
Total other comprehensive loss		-	-	-	-	-	(113,235)	-	-	(6,292)	-	-	(119,527)	-	(119,527)
Total comprehensive loss for the period		-	-	-	-	-	(113,235)	-	-	(6,292)	-	(84,026)	(203,553)	(12)	(203,565)
Transactions with owners:															
Contributions and distributions		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue of shares upon exercise of share options		21	2,528	-	-	(636)	-	-	-	-	-	-	1,913	-	1,913
Equity-settled share based payment		-	-	-	-	14,788	-	-	-	-	-	-	14,788	-	14,788
Share options lapsed		-	-	-	-	(280)	-	-	-	-	-	280	-	-	-
Total transactions with owners		21	2,528	-	-	13,872	-	-	-	-	-	280	16,701	-	16,701
As at 30th June 2016		45,057	130,944	8,668	234,621	71,527	76,806	-	16,023	48,056	(1,113)	1,305,278	1,935,867	1,061	1,936,928

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30th June 2017

	For the six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
OPERATING ACTIVITIES		
Loss before tax	(10,899)	(84,002)
Adjustments for:		
Exchange differences	(7,087)	1,156
Bad debts written off	9	–
Write-down of inventories	2,390	2,584
Reversal of impairment loss on trade receivables	(2)	–
Reversal of impairment loss on other receivables	(10)	(93)
Interest income from bank deposits	(2,840)	(1,301)
Interest income from loans receivable	(4,027)	–
Interest income from investment in an insurance contract	(85)	(75)
Interest expenses	7,915	5,244
Dividend income from listed equity securities	–	(877)
Share-based compensation expenses of share option scheme	–	14,788
Amortisation of prepaid lease payments	175	184
Depreciation of property, plant and equipment	3,257	2,769
Fair value losses/(gains) on investment properties, net	3,090	(602)
Loss on disposal of property, plant and equipment	21	406
Gain on disposal of available-for-sale financial assets	–	(34,892)
Fair value losses on financial liabilities at fair value through profit or loss	778	–
OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL	(7,315)	(94,711)
Increase in inventories	(9,271)	(48,547)
Decrease in trade and other receivables	43,527	115,881
(Increase)/Decrease in financial assets at fair value through profit or loss	(218,270)	143,992
Decrease in trade and other payables	(8,044)	(3,480)
CASH (USED IN)/GENERATED FROM OPERATIONS	(199,373)	113,135
Income tax paid	(1,211)	(5,504)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(200,584)	107,631

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)(Continued)

For the six months ended 30th June 2017

	For the six months ended 30th June	
	2017	2016
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	–	(177,823)
Purchase of property, plant and equipment	(353)	(4,908)
Purchase of investment property	(109,200)	–
Decrease in pledged bank deposits with original maturities over three months	1,638	1,990
Proceeds from disposal of available-for-sale financial assets	–	95,392
Interest received	2,129	580
Increase in loans receivable	118,536	–
Dividend received from listed equity securities	–	877
Proceeds from disposal of property, plant and equipment	32	17
Deposit paid for potential acquisition of subsidiaries	(218,010)	–
NET CASH USED IN INVESTING ACTIVITIES	(205,228)	(83,875)
FINANCING ACTIVITIES		
Proceeds from issue of shares upon exercise of share options	–	1,913
New bank loans raised	–	11,901
Repayment of bank loans	(128,336)	(24,742)
Net proceeds from issue of convertible bonds	500,191	–
Interest paid	(4,315)	(5,244)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	367,540	(16,172)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(38,272)	7,584
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	603,524	433,842
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	423	4,597
CASH AND CASH EQUIVALENTS AT END OF PERIOD	565,675	446,023

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 2017 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange. 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 2016. They have been prepared on the historical cost basis, except for investment properties, financial assets/liabilities at fair value through profit or loss and available-for-sale financial assets, except for unlisted equity securities outside Hong Kong, 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 2016. The adoption of the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs") that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

Amendments to HKAS 7
Amendments to HKAS 12

Disclosure Initiative
Recognition of Deferred Tax Assets for Unrealised Losses

The Group has not early adopted any new/revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1st January 2017. The directors are in the process of assessing the possible impact on the future adoption of these new/revised HKFRSs, but are not yet in a position to reasonably estimate their impact on the Group's results and financial statements.

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 2017 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 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.

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

	Note	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
As at 30th June 2017					
Investment properties	8	222,161	–	222,161	–
Available-for-sale financial assets	9	638,243	514,500	49,015	74,728
Financial assets at fair value through profit or loss	13	655,662	183,515	472,147	–
Financial liabilities at fair value through profit or loss	13	(56,171)	–	(56,171)	–
	Note	Carrying amount HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
As at 31st December 2016					
Investment properties	8	114,226	–	114,226	–
Available-for-sale financial assets	9	495,165	388,000	35,719	71,446
Financial assets at fair value through profit or loss	13	432,192	393,118	39,074	–
Financial liabilities at fair value through profit or loss	13	–	–	–	–

During the six months ended 30th June 2017 and the year ended 31st December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 fair value measurements.

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

2 Fair value measurements (Continued)

Valuation techniques and inputs in Level 2 fair value measurement

(a) *Investment properties*

The investment properties situated in the People's Republic of China (other than Hong Kong, Taiwan and Macau) (the "PRC") and Hong Kong of approximately HK\$121,931,000 were revalued by Roma Appraisals Limited, an independent professional qualified valuer, on the market value basis using direct comparison approach.

In addition, the Group's investment property situated in the United States of HK\$100,230,000 was also stated at fair value as at 30th June 2017 as estimated by the Directors with reference to the valuation provided by Vigers Appraisal & Consulting Limited ("Vigers"), an independent professional qualified valuer, which was performed on 11th April 2017 using direct comparison approach. In the opinion of the Directors, the change in fair value of the Group's investment property situated in the United States during the period from 11th April 2017 to 30th June 2017 did not have material impact to the results of the Group.

Sales prices of comparable properties in close proximity adjusted for differences in key valuation attributes, such as size/age etc. were used to value the properties. The most significant input into the above valuation approach is market price per square foot of similar properties.

(b) *Available-for-sale financial assets: Private investment funds*

The fair value of a private investment funds invested in listed equity securities in Level 2 is valued based on the net asset value of each fund unit quoted by the investment manager based on quoted prices of the underlying investments i.e. listed equity securities in an active market with insignificant adjustments.

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

The private investment funds with aggregate principal amounts of RMB217,000,000 (equivalent to approximately HK\$250,029,000), which offer guaranteed annualised return of 5.9%-6.2% and have maturity periods of less than one year, are issued by an investment company in the PRC. Their fair values are valued by the discounted cash flow of the funds upon their maturity.

(d) *Financial assets at fair value through profit or loss: Unlisted debt securities*

The fair value of unlisted debt securities is valued based on the return rate of the note quoted by the financial institution with reference to quoted US Treasury Bills and Notes rates.

(e) *Financial liabilities at fair value through profit or loss: Early redemption options*

The fair value of early redemption options in Level 2 are valued by Vigers, an independent professional qualified valuer not connected with the Group and with appropriate qualification and recent experience in the valuation of similar financial instruments. The fair value is determined at the date of issue of convertible bonds and at the end of the reporting period using Binomial Tree Pricing Model with reference to observable market data.

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

2 Fair value measurements (Continued)

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 2017 and 2016 are shown as follows:

	Available-for-sale financial assets	
	2017 HK\$'000	2016 HK\$'000
As at 1st January	71,446	77,284
Net gain/(loss) on change in fair value recognised in other comprehensive income/(loss)	<u>3,282</u>	<u>(1,164)</u>
As at 30th June	<u>74,728</u>	<u>76,120</u>

Valuation techniques and inputs in Level 3 fair value measurement

The fair value of the private investment fund in Level 3 is based on the fair value of the unlisted equity securities of a company invested by the fund. The fair values of unlisted equity securities which are valued by the investment managers are estimated by valuation techniques, using discounted cash flows model with assumptions that are not supported by observable market data. As at 30th June 2017, a discount rate of unquoted company invested by the fund of 11.7% (30th June 2016: 11.7%) is used.

As at 30th June 2017, if the expected discount rate of the investment fund had been 1% (30th June 2016: 1%) higher/lower while all other variables were held constant, the Group's other comprehensive income would be decreased by approximately HK\$10,910,000 or increased by approximately HK\$14,819,000 respectively (30th June 2016: other comprehensive loss would be increased by approximately HK\$10,631,000 or decreased by approximately HK\$8,497,000 respectively).

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

3 Revenue and segment information

During the end of the 2016 reporting period, the management changed its reporting segments to information home appliances, investing and leasing as a result of the diminishing effect of trading segment to the total revenue and assets of the Group. In consequence, certain comparative figures of the segment information have been restated to correspond with current period's presentation.

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

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

The leasing segment comprises leasing out of properties.

Other operations segment of the Group mainly comprise trading, internet data processing and assets management.

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 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 sales 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)

Information home appliances HK\$'000	For the six months ended 30th June 2016 (Restated)					Consolidated HK\$'000
	Investing HK\$'000	Leasing HK\$'000	Other operations HK\$'000	Elimination HK\$'000		
REVENUE						
External sales	314,070	-	-	46	-	314,116
Inter-segment sales	-	-	-	902	(902)	-
OTHER REVENUE AND NET LOSS	2,387	(40,096)	4,824	93	(1,278)	(34,070)
NET CHANGES IN FAIR VALUE ON INVESTMENT PROPERTIES	-	-	602	-	-	602
Segment revenue	<u>316,457</u>	<u>(40,096)</u>	<u>5,426</u>	<u>1,041</u>	<u>(2,180)</u>	<u>280,648</u>
RESULTS						
Segment results	<u>9,554</u>	<u>(58,368)</u>	<u>2,094</u>	<u>(2,465)</u>	<u>-</u>	(49,185)
Unallocated corporate income						134
Interest income from bank deposits						1,301
Other unallocated corporate expenses						<u>(31,008)</u>
Finance costs						(78,758) <u>(5,244)</u>
Loss before tax						(84,002)
Income tax expenses						<u>(36)</u>
Loss for the period						<u><u>(84,038)</u></u>

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

3 Revenue and segment information (Continued)

Geographical information

The Group operates in the following principal geographical areas: the PRC, Hong Kong, Australia and other overseas markets (30th June 2016: 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.

(a) Revenue from external customers

	For the six months ended 30th June	
	2017 HK\$'000	2016 HK\$'000
The PRC	17,968	84,696
Hong Kong	88,500	76,967
Australia	62,041	144,877
Other overseas markets	11,899	7,576
	<u>180,408</u>	<u>314,116</u>

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

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

	For the six months ended 30th June 2016				
	Information home appliances HK\$'000	Investing HK\$'000	Leasing HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
The PRC	2,387	216	2,646	93	5,342
Hong Kong	-	(40,312)	900	-	(39,412)
	<u>2,387</u>	<u>(40,096)</u>	<u>3,546</u>	<u>93</u>	<u>(34,070)</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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Other revenue				
Dividend income from listed securities	–	877	–	867
Interest income from bank deposits	2,840	1,301	995	559
Interest income from loans receivable	4,027	–	771	–
Imputed interest income from investment in an insurance contract	85	75	43	42
Rental income from investment properties	2,881	3,546	1,549	1,793
	9,833	5,799	3,358	3,261
Other net income/(loss)				
Foreign exchange gain/(loss), net	12,072	–	6,938	(384)
Net unrealised gains/(losses) on financial assets at fair value through profit or loss				
– held for trading	17,878	(33,254)	12,441	1,074
– designated upon initial recognition	28	670	(15)	(1,752)
– derivative financial instrument	–	–	–	(147)
Net gains/(losses) on disposal of financial assets at fair value through profit or loss				
– held for trading	16,715	(47,877)	4,812	(2,856)
– designated upon initial recognition	1,021	4,196	463	3,758
– derivative financial instrument	–	551	–	–
Net fair value change on financial liabilities at fair value through profit or loss	(778)	–	(778)	–
Gain on disposal of available-for-sale financial assets	–	34,892	–	34,892
Reversal of impairment loss on trade and other receivables	10	93	–	2
Sundry income	2,395	2,295	565	1,089
	49,341	(38,434)	24,426	35,676
	59,174	(32,635)	27,784	38,937

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

5 (Loss)/Profit before tax

(Loss)/Profit 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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Finance costs				
Borrowing costs for bank loans	4,315	5,244	2,149	2,860
Imputed interest expenses on convertible bonds (note 17)	3,600	—	3,600	—
	<u>7,915</u>	<u>5,244</u>	<u>5,749</u>	<u>2,860</u>
Other items				
Foreign exchange loss, net	—	11,014	—	11,014
Write-down of inventories	2,390	2,584	55	952
Amortisation of prepaid lease payments	175	184	88	92
Depreciation of property, plant and equipment	3,257	2,769	1,615	1,439
	<u>3,257</u>	<u>2,769</u>	<u>1,615</u>	<u>1,439</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	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
PRC enterprise income tax	<u>13</u>	<u>36</u>	<u>13</u>	<u>36</u>

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

6 Income tax expenses (Continued)

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rate of 25% on the estimated assessable profits for the six months and three months ended 30th June 2017 and 2016 based on existing legislation, interpretations and practices in respect thereof. One operating subsidiary (six months and three months ended 30th June 2016: one) of the Company has been officially designated by the local tax authority as "New and High Technology Enterprise" which is eligible to enjoy the preferential tax rate of 15% for the six months and three months ended 30th June 2017 (six months and three months ended 30th June 2016: 15%). Another operating subsidiary (six months and three months ended 30th June 2016: one) 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 starting from 1st January 2015 to 31st December 2017. As a result, the effective tax rate for the subsidiary is 9% for the six months and three months ended 30th June 2017 (six months and three months ended 30th June 2016: 9%).

No Hong Kong Profits Tax has been provided for the six months and three months ended 30th June 2017 and 2016 as the Group did not have any assessable profit from Hong Kong for both periods.

7 (Loss)/Earnings per share

The calculation of the basic and diluted (loss)/earnings 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	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit attributable to owners of the Company	<u>(10,912)</u>	<u>(84,026)</u>	<u>(6,501)</u>	<u>7,368</u>

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

7 (Loss)/Earnings per share (Continued)

	For the six months ended 30th June		For the three months ended 30th June	
	2017 '000	2016 '000	2017 '000	2016 '000
Issued ordinary shares at 1st January	1,803,089	1,801,429	–	–
Issued ordinary shares at 1st April	–	–	1,803,089	1,801,429
Effect of share options exercised	–	91	–	181
	<u>1,803,089</u>	<u>1,801,520</u>	<u>1,803,089</u>	<u>1,801,610</u>
Weighted average number of ordinary shares for basic (loss)/earnings per share	1,803,089	1,801,520	1,803,089	1,801,610
Effects of dilutive potential ordinary shares:				
Exercise of share options	N/A	N/A	N/A	17,370
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>17,370</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share	<u>1,803,089</u>	<u>1,801,520</u>	<u>1,803,089</u>	<u>1,818,980</u>
(Loss)/Earnings per share:				
– Basic	<u>(0.61) cent</u>	<u>(4.66) cents</u>	<u>(0.36) cent</u>	<u>0.409 cent</u>
– Diluted (Note)	<u>(0.61) cent</u>	<u>(4.66) cents</u>	<u>(0.36) cent</u>	<u>0.405 cent</u>

Note:

Diluted loss per share is the same as the basic loss per share for the six months and three months ended 30th June 2017 because the potential ordinary shares arising from the outstanding share options under the Company's share option scheme and the conversion of convertible bonds outstanding had an anti-dilutive effect on the basic loss per share during the periods.

Diluted loss per share is the same as the basic loss per share for the six months ended 30th June 2016 because the potential ordinary shares arising from the outstanding share options under the Company's share option scheme had an anti-dilutive effect on the basic loss per share during the period.

The calculation of diluted earnings per share for the three months ended 30th June 2016 is based on the profit attributable to owners of the Company of approximately HK\$7,368,000, and the weighted average number of ordinary shares issued during the period of approximately 1,818,980,000 shares which has been adjusted for the number of dilutive potential ordinary shares arising from the outstanding share options granted under the Company's share option scheme.

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

8 Investment properties/property, plant and equipment

During the period, the Group expended approximately HK\$109,200,000 and HK\$353,000 (six months ended 30th June 2016: HK\$Nil and approximately HK\$4,908,000) on the acquisition of investment properties and equipment for the expansion of the Group's operations respectively.

9 Available-for-sale financial assets

		30th June 2017	31st December 2016
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
At fair value:			
Equity securities listed in Hong Kong	<i>(a)</i>	514,500	388,000
Private investment funds	<i>(b)</i>	123,743	107,165
		638,243	495,165
At cost:			
Unlisted equity securities outside Hong Kong	<i>(c)</i>	78,000	78,000
		716,243	573,165

Notes:

- (a) The fair values of the listed equity securities are determined based on the quoted market bid price available on the relevant stock exchanges at the end of the reporting period.
- (b) Included in the private investment funds are two private investment funds, one of which invested in listed equity securities with carrying amount of approximately HK\$49,015,000 (31st December 2016: approximately HK\$35,719,000) with another invested in unlisted equity securities with carrying amount of approximately HK\$74,728,000 (31st December 2016: approximately HK\$71,446,000) as at 30th June 2017. The valuation techniques and inputs applied for fair value measurement of these private investment funds are disclosed in note 2.
- (c) The unlisted equity securities of a company incorporated in the Cayman Islands are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed. The Directors are of the opinion that their fair values cannot be measured reliably. No impairment has been identified by the Directors on these investments at the end of the reporting period.

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

10 Deposit for potential acquisition of subsidiaries

On 26th June 2017, Noble Rich Investment Limited, a wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Phoenix Bridge International Holdings Group Investment Co., Limited (the "Vendor") and Wang Dade, as guarantor, to acquire 30,000,000 shares owned by the Vendor which representing the entire issued share capital of Indeed Holdings Limited (the "Target Company") at a consideration of US\$43,000,000 (equivalent to approximately HK\$335,400,000) subject to adjustments (the "Proposed Acquisition").

The Target Company is engaged in investment holding and its wholly-owned subsidiary (the "Target Subsidiary") owns the property consist of the land and the factory building situated at Shanghai City, PRC (the "Land and Property"). The Land and Property has been leased by the Target Subsidiary to an independent third party for a term of ten years commencing from 1st March 2017 to 1st March 2027 as an internet data centre with a monthly rental income of RMB2,100,000 from 1st March 2017 to 28th February 2022, and approximately RMB2,330,000 from 1st March 2022 to 28th February 2027.

On 28th June 2017, US\$27,950,000 (equivalent to approximately HK\$218,010,000) of the consideration was settled in cash to the Vendor as a refundable deposit (the "Deposit"). The remaining balance of the consideration of US\$15,050,000 (equivalent to approximately HK\$117,390,000), subject to certain adjustments, shall be paid in cash to the Vendor on the completion of the Proposed Acquisition. At the end of the reporting period, the Deposit was recognised as non-current assets.

As at the date of this report, the Proposed Acquisition has not been completed because certain terms and conditions are yet to be fulfilled. The details of the Proposed Acquisition were disclosed in the Company's announcements dated 26th June 2017, 17th July 2017 and 31st July 2017.

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

11 Loans receivable

(a) *Loan receivable from Shanghai Ying Hong Investment Management Company Limited**

As at 31st December 2016, loan receivable represented advances to Shanghai Ying Hong Investment Management Company Limited* (上海鷹虹投資管理有限公司), an independent third party of the Group ("Ying Hong").

On 21st December 2016, Lasaruida Investment Consultation Management Company Limited*(拉薩睿達投資諮詢管理有限公司) ("Lasaruida"), an indirect wholly-owned subsidiary of the Company, and Ying Hong entered into a RMB200,000,000 loan agreement (the "Loan Agreement") pursuant to which Lasaruida agreed to grant a loan in the principal amount of up to RMB200,000,000 (equivalent to approximately HK\$223,589,000) (the "RMB200 million Loan") to Ying Hong as additional fund for its equity investment. The RMB200 million Loan is interest-bearing at 8% per annum and repayable in one year from the first drawdown date. The drawdown period is two months from the date of the Loan Agreement.

On 21st December 2016, Ying Hong drew RMB200,000,000 (equivalent to approximately HK\$223,589,000) loan from Lasaruida. As at 31st December 2016, the RMB200 million Loan was recognised as loan receivable under current assets.

On 22nd February 2017, Ying Hong issued an early repayment notice to Lasaruida in which Ying Hong proposed to make an early repayment of the RMB200 million Loan and the relevant interest expenses calculated up to 23rd February 2017. On 23rd February 2017, Ying Hong repaid the principal amount of RMB200,000,000 (equivalent to approximately HK\$223,589,000) and interest expenses of approximately RMB2,889,000 (equivalent to approximately HK\$3,230,000) to Lasaruida. Details of the RMB200 million Loan to Ying Hong were disclosed in the Company's announcement dated 21st December 2016 and note 22 to the consolidated financial statements in the 2016 annual report.

(b) *Loans receivable from Xiang Jiang Technology Co., Limited**

As at 30th June 2017, loans receivable represented advances to Xiang Jiang Technology Co., Limited* (香江科技股份有限公司), an independent third party of the Group (the "Borrower").

On 17th May 2017, Lasaruida and Beijing E'rich Investment Management Co., Ltd* (北京裕睿投資管理有限公司) ("E'rich"), both indirect wholly-owned subsidiaries of the Company, and the Borrower entered into loan agreements (the "Loan Agreements") pursuant to which Lasaruida and E'rich agreed to grant loans in the principal amount of up to RMB100,000,000 (equivalent to approximately HK\$115,221,000) (the "Loan") to the Borrower as additional fund for its general working capital. The Loan is interest-bearing at 8% per annum and repayable in one year from the date of the Loan Agreements. According to the loan agreement entered by the Borrower and E'rich, the drawdown date was 17th May 2017 and the drawdown amount was RMB50,000,000. According to the loan agreement entered by the Borrower and Lasaruida, the drawdown dates were 17th May 2017 and 19th June 2017 and the drawdown amounts were RMB5,000,000 and RMB45,000,000 respectively. According to the Loan Agreements, the Borrower can choose to repay the Loan before the repayment date. At the end of the reporting period, the Loan was recognised as loans receivable under current assets. Details of the Loan to the Borrower were disclosed in the Company's announcement dated 17th May 2017.

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

12 Trade and other receivables

		30th June 2017	31st December 2016
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Trade receivables	(a)	84,581	91,070
Less: Impairment loss in respect of trade receivables		(2,410)	(2,374)
		82,171	88,696
Amount due from a related company	(b)	–	31,225
Other receivables, net of impairment loss		5,763	5,384
Prepayments and deposits		17,661	20,963
Total trade and other receivables		105,595	146,268
Less: Balance due within one year included in current assets		(105,595)	(143,669)
Non-current portion		–	2,599

Notes:

- (a) The Group grants its trade customers an average credit period from 30 days to 18 months (31st December 2016: 30 days to 18 months). The ageing analysis of trade receivables (net of impairment loss) by invoice date at the end of the reporting period is as follows:

	30th June 2017	31st December 2016
	HK\$'000	<i>HK\$'000</i>
0 – 30 days	31,948	34,772
31 – 60 days	15,500	38,433
61 – 90 days	21,989	8,429
Over 90 days	12,734	7,062
	82,171	88,696

- (b) The amount of RMB27,930,000 (equivalent to approximately HK\$31,225,000) was related to a potential equity investment by way of subscription for additional registered capital of a PRC unlisted company, in which an executive director Mr. Li Qiang has indirect beneficial interest.

The management eventually decided to withdraw from this investment opportunity and had the amount returned for other investment opportunities. The Group, the related company and an independent third party entered into an agreement pursuant to which the related company agreed to return the whole balance of RMB27,930,000 (equivalent to approximately HK\$31,225,000) to the Group through the independent third party. On 8th March 2017, the Group received RMB27,930,000 (equivalent to approximately HK\$31,225,000) from the independent third party.

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

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

	Note	30th June 2017		31st December 2016	
		Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Held for trading investments:					
Equity securities listed in Hong Kong	(a)	83,153	–	206,259	–
Equity securities listed outside Hong Kong	(a)	16,336	–	60,932	–
Private investment funds	(d)	253,440	–	–	–
Debt securities listed outside Hong Kong	(a)	59,916	–	–	–
Unlisted debt securities	(c)	218,707	–	39,074	–
		<u>631,552</u>	<u>–</u>	<u>306,265</u>	<u>–</u>
Designated upon initial recognition:					
Money market funds	(a), (b)	24,110	–	125,927	–
		<u>24,110</u>	<u>–</u>	<u>125,927</u>	<u>–</u>
Derivative financial instruments:					
Early redemption options	16	–	(56,171)	–	–
		<u>–</u>	<u>(56,171)</u>	<u>–</u>	<u>–</u>
At the end of the reporting period		<u>655,662</u>	<u>(56,171)</u>	<u>432,192</u>	<u>–</u>

Notes:

- (a) The fair value of listed equity securities, listed debt securities and money market funds are based on quoted market prices in active markets as at the end of the reporting period.
- (b) The investments in money market funds are designated as financial assets at fair value through profit or loss on initial recognition because they are managed together and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information about the investments are provided internally on that basis to the Board.
- (c) The investment in unlisted debt securities is principally for the purpose of selling in the nearest future. The valuation techniques and inputs applied for fair value measurement of this debt securities are disclosed in note 2.
- (d) The investment in private investment funds are short-term investments with aggregate principal amounts of RMB217,000,000 (equivalent to approximately HK\$250,029,000), which offer guaranteed annualised return of 5.9% – 6.2% and have maturity periods of less than one year, are issued by an investment company in the PRC.

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

14 Investment portfolio

The Group discloses its ten largest investments, including individual investments with value exceeding 5% of the Group's total assets, as at 30th June 2017 and 31st December 2016 with brief description of the investee companies as follows:

Top ten investments

As at 30th June 2017

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost	Carrying amount as at 30th June 2017	Accumulated unrealised holding gain/(loss) arising on revaluation for the six months ended 30th June 2017	Dividend received/receivable for the six months ended 30th June 2017	Classification of financial assets
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Listed equity securities								
2318	Ping An Insurance (Group) Company of China Ltd. (H Shares) ("Ping An H Shares")	(i)	10,500,000	0.14%	401,739	540,225	138,486	-	Available-for-sale financial assets at fair value through profit or loss
8192	Global Energy Resources International Group Limited		80,880,000	7.80%	32,264	33,161	897	-	Financial assets at fair value through profit or loss
1089	Leyou Technologies Holdings Limited		12,000,000	0.41%	13,921	23,520	9,599	-	Financial assets at fair value through profit or loss
	Unlisted debt securities								
	US Treasury Enhanced Yield Fiduciary Notes	(ii)	N/A	N/A	218,400	218,707	307	-	Financial assets at fair value through profit or loss
204003	National debt reverse repurchase - GC003	(iii)	520,000	N/A	599,916	59,916	-	-	Financial assets at fair value through profit or loss
	Money market funds								
	China Minsheng Bank Corp., Ltd	(iv)	N/A	N/A	2,1316	21,345	29	-	Financial assets at fair value through profit or loss
	Private investment funds								
	Cicjiazai Holdings Limited	(v)	1,552,700	4.97%	78,000	74,728	(3,272)	-	Available-for-sale
	Maxwealth Great China Fixed Income Fund II LP	(vi)	N/A	7.72%	60,000	49,015	(10,985)	-	Available-for-sale
	Minsheng Wealth Management Co., Ltd.	(vii)	N/A	N/A	250,029	253,440	3,411	-	Financial assets at fair value through profit or loss
	Unlisted equity securities								
	APAL Holdings Limited	(viii)	100,000,000	9.47%	78,000	78,000	-	-	Available-for-sale

The above investments represent in aggregate over 98.6% 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 2017.

Investment portfolio (Continued)

Top ten investments (Continued)

As at 31st December 2016

Stock code	Name of investee company	Note	Number of shares held	Effective shareholding interest	Acquisition cost HK\$'000	Carrying amount as at 31st December 2016 HK\$'000	Accumulated unrealised holding gain/(loss) arising on revaluation for the six months ended 30th June 2016 HK\$'000	Dividend received/receivable for the six months ended 30th June 2016 HK\$'000	Classification of financial assets
Listed equity securities									
2318	Ping An Insurance (Group) Company of China Ltd. (H shares)		10,572,380	0.14%	404,758	410,208	2,627	-	Available-for-sale/financial assets at fair value through profit or loss
1089	Leyou Technologies Holdings Limited		26,105,000	0.91%	30,284	41,788	(15,292)	-	Financial assets at fair value through profit or loss
1129	China Water Industry Group Limited		30,000,000	1.88%	56,400	38,700	(16,200)	-	Financial assets at fair value through profit or loss
600234	Guanghe Landscape Culture Communication Co., Ltd. (ShanXi)		1,882,751	0.93%	30,809	38,539	-	-	Financial assets at fair value through profit or loss
CNG.L	China Nonferrous Gold Ltd		8,998,325	2.34%	27,275	22,355	919	-	Financial assets at fair value through profit or loss
Unlisted debt securities									
	US Treasury Enhanced Yield Fiduciary Notes	(vi)	N/A	N/A	39,000	39,074	-	-	Financial assets at fair value through profit or loss
Money market funds									
	China Minsheng Bank Corp., Ltd	(iv)	N/A	N/A	122,974	123,021	-	-	Financial assets at fair value through profit or loss
Private investment funds									
	Crcqazi Holdings Limited	(v)	1,552,700	4.97%	78,000	71,446	(1,880)	-	Available-for-sale
	MaxWealth Great China Fixed Income Fund II LP	(vi)	N/A	7.72%	60,000	35,719	(30,411)	-	Available-for-sale
Unlisted equity securities									
	APAL Holdings Limited	(vii)	100,000,000	9.47%	78,000	78,000	-	-	Available-for-sale

The above investments represent in aggregate over 89.4% 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 31st December 2016.

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

14 Investment portfolio (Continued)

Top ten investments (Continued)

Notes:

- (i) Subsequent to the end of the reporting period, the Group disposed of 3,000,000 shares of Ping An H Shares (the "Disposal") in a series of transactions with aggregate gross proceeds of approximately HK\$172.2 million. For details of the Disposal, please refer to the announcement of the Company dated 27th July 2017.
- (ii) US Treasury Enhanced Yield Fiduciary Notes is issued by UBS (Luxembourg) Issuer SA under its EUR10,000,000,000 Fiduciary Note Programme. The proceeds are mainly invested into US Treasury Bills, US Treasury Notes and 91-Day Bills as auctioned by the US Department of the Treasury. As at 30th June 2017, the fair value of the US Treasury Enhanced Yield Fiduciary Note is approximately HK\$218,707,000 (31st December 2016: approximately HK\$39,074,000) by reference to the quoted US Treasury Bills and US Treasury Notes rates using discounted cash flow model.
- (iii) National debt reverse repurchase-GC003 trades in the Shanghai Stock Exchange (code: 204003). As at 30th June 2017, there was one contract of national debt reverse repurchase-GC003 with annualised interest rate of approximately 7.1% per annum.
- (iv) A 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 2017, the quoted annualised daily return rate was between approximately 3.65% and 4.0% per annum (31st December 2016: approximately 2.8% and 4.05%).
- (v) A private investment fund administrated by Ciccjazi Holdings Limited solely invested in equity shares of an unlisted company in the PRC. As at 30th June 2017, the fair value of the private investment fund was approximately HK\$1,503,990,000 (31st December 2016: approximately HK\$1,437,946,000) by reference to the valuation on the unlisted equity securities from the investment manager using discounted cash flows model.
- (vi) MaxWealth Great China Fixed Income Fund II LP (formerly known as Yue Xiu Great China Fixed Income Fund II LP) is a Cayman Islands exempted limited partnership. The partnership is managed by the general partner, MaxWealth Investment Management Limited, who holds the property of the partnership on behalf of the partnership. The partnership shall continue in existence for three 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 2017, the fair value of the partnership is approximately HK\$594,177,000 (31st December 2016: approximately HK\$432,999,000) by reference to the quoted prices of the underlying investments.
- (vii) A private investment fund administrated by Minsheng Wealth Management Co., Ltd. invested in trusts, money market funds, bank deposits and other fixed return financial product.
- (viii) APAL Holdings Limited ("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.

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

15 Trade and other payables

	30th June 2017 HK\$'000	31st December 2016 HK\$'000
Trade payables (Note)	64,919	65,304
Other payables	25,203	27,540
Accruals	34,215	37,334
	<u>124,337</u>	<u>130,178</u>

Note:

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

	30th June 2017 HK\$'000	31st December 2016 HK\$'000
0 – 30 days	25,882	21,229
31 – 60 days	12,578	18,162
61 – 90 days	9,529	13,014
Over 90 days	16,930	12,899
	<u>64,919</u>	<u>65,304</u>

16 Bank loans

	30th June 2017 HK\$'000	31st December 2016 HK\$'000
Current and secured		
Bank loans with a repayment on demand clause	–	123,500
Term loans with a repayment on demand clause	324,935	320,174
	<u>324,935</u>	<u>443,674</u>

Note: As at 30th June 2017, the term loans carried variable interest rates ranging from 2.45%-2.65% (31st December 2016: 2.23%-2.65%) per annum. The term loans are secured by the assets of the Group as set out in note 18.

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

17 Convertible bonds

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

Redemption at maturity

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

Early redemption at the options of the Company and the bondholder

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

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

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

17 Convertible bonds (Continued)

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

	HK\$'000
Debt component, classified as financial liability at amortised cost	
Nominal value of the Convertible Bonds at issue date	504,000
Fair value of Derivative Component at issue date	(55,393)
Equity component	(37,676)
Issue costs attributable to the debt component	(3,809)
	<hr/>
Fair value of debt component at issue date	407,122
Imputed interest expenses	3,600
	<hr/>
As at 30th June 2017	410,722
	<hr/> <hr/>
Derivative Component, classified as financial liabilities at fair value through profit or loss	
At issue date	55,393
Fair value change	778
	<hr/>
As at 30th June 2017	56,171
	<hr/> <hr/>

The fair values of the debt component and Derivative Component were determined with reference to a professional valuation conducted by an independent professional valuer.

18 Pledge of assets

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

	30th June 2017 HK\$'000	31st December 2016 HK\$'000
(a) Investment properties	72,442	65,307
(b) Buildings	6,339	6,312
(c) Leasehold property	2,187	2,237
(d) Prepaid lease payments	1,851	1,825
(e) Available-for-sale financial assets	514,500	388,000
(f) Financial assets at fair value through profit or loss	244,432	66,607
(g) Bank deposits	488,430	359,913

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

19 Share Capital

	Number of shares		Amount	
	30th June 2017 '000	31st December 2016 '000	30th June 2017 HK\$'000	31st December 2016 HK\$'000
Authorised:				
At beginning and end of period/year				
Ordinary shares of HK\$0.025 each	<u>8,000,000</u>	<u>8,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:				
At beginning of period/year				
Ordinary shares of HK\$0.025 each	<u>1,803,089</u>	1,801,429	<u>45,077</u>	45,036
Exercise of share options	<u>–</u>	<u>1,660</u>	<u>–</u>	<u>41</u>
At end of period/year				
Ordinary shares of HK\$0.025 each	<u>1,803,089</u>	<u>1,803,089</u>	<u>45,077</u>	<u>45,077</u>

20 Approval of the unaudited condensed consolidated interim financial statements

The unaudited condensed consolidated interim financial statements were approved by the Board on 10th August 2017.

RESERVES

Movements in the reserves of the Group during the six months ended 30th June 2017 (the "Period") are set out in the unaudited condensed consolidated statement of changes in equity of the financial statements.

INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (six months ended 30th June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and Gross Profit

During the Period, the Group's overall revenue amounted to approximately HK\$180.4 million, representing a decrease of 42.6% as compared with the same period of last year. Although the Group's revenue in Hong Kong market for the Period increased by 15.0% to approximately HK\$88.5 million as compared with the same period of last year, the Group's revenue in the PRC and overseas markets significantly decreased by 78.8% and 51.5% to approximately HK\$18.0 million and HK\$73.9 million respectively as compared with the same period of last year due to a significant decrease in sales order received. At the same time, rising prices of raw material led to a big drop in the average gross profit margin for the Period. Consequently, the overall gross profit of the Group for the Period decreased significantly by 75.6% to approximately HK\$9.6 million as compared with the same period of last year and the gross profit margin only reached 5.3% for the Period (six months ended 30th June 2016: 12.5%).

Operating Results

Other Revenue and Net Income/(Loss)

The Group's other revenue and net income significantly increased to approximately HK\$59.2 million for the Period (six months ended 30th June 2016: other revenue and net loss approximately HK\$32.6 million). This was due to (1) the improvement of the performance of investments portfolio of the Group in the first half of 2017, which caused the Group to record the net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$34.9 million for the Period (six months ended 30th June 2016: net losses of approximately HK\$75.7 million). This was the major reason for the significant decrease in the loss attributable to owners of the Company for the Period as compared with the same period of last year; and (2) the appreciation of Renminbi ("RMB") against Hong Kong Dollars ("HKD") resulted in an increase in net exchange gains of approximately HK\$12.1 million during the Period (six months ended 30th June 2016: net exchange loss of approximately HK\$11.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Operating Results *(Continued)*

Change in Fair Value of Investment Properties

The Group recognised net revaluation losses of approximately HK\$3.1 million on its investment properties for the Period (six months ended 30th June 2016: net revaluation gains of approximately HK\$0.6 million).

Operating Expenses

With the decrease in the Group's overall revenue, the Group's distribution and selling expenses decrease to approximately HK\$7.8 million for the Period (six months ended 30th June 2016: approximately HK\$9.7 million). At the same time, the Group's general and administrative expenses also decreased 3.3% to approximately HK\$58.4 million for the Period (six months ended 30th June 2016: approximately HK\$60.4 million).

Other Operating Expenses

During the Period, the appreciation of RMB against HKD resulted in an increase in net exchange gains of approximately HK\$12.1 million recognised by the Group in the other revenue and net income/(loss) (six months ended 30th June 2016: net exchange loss of approximately HK\$11.0 million) which in turn caused the decrease of the other operating expenses of the Group to approximately HK\$2.4 million for the Period (six months ended 30th June 2016: approximately HK\$15.9 million).

Finance Costs

Imputed interest expenses of approximately HK\$3.6 million was recorded for the Period (six months ended 30th June 2016: HK\$Nil) in respect of the convertible bonds issued by the Company on 20th June 2017, which caused the finance costs of the Group to significantly increase to approximately HK\$7.9 million for the Period (six months ended 30th June 2016: approximately HK\$5.2 million).

Loss for the Period

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company of approximately HK\$10.9 million for the Period (six months ended 30th June 2016: approximately HK\$84.0 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Liquidity and Financial Resources

As at 30th June 2017, the Group had net current assets of approximately HK\$932.7 million. The Group had cash and bank balances and pledged bank deposits of approximately HK\$565.7 million and HK\$345.7 million respectively. The Group's financial resources were funded mainly by bank loans, the convertible bonds issued by the Company and its shareholders' funds. As at 30th June 2017, the Group's current ratio, as calculated by dividing current assets by current liabilities, was 2.0 times and the gearing ratio, as measured by total liabilities divided by total equity, was 43.3%. Hence, as at 30th June 2017, the overall financial and liquidity positions of the Group remained at a stable and healthy level.

Charges on Group Assets

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

Funding

Fundraising Activities

Issue of Convertible Bonds

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Funding *(Continued)*

Fundraising Activities (Continued)

Issue of Convertible Bonds (Continued)

The net proceeds from the issue of the Convertible Bonds net of issue cost amounted to approximately HK\$500.2 million. The use of proceeds from the issue of the Convertible Bonds is to fund the construction of an internet data center ("IDC") of the Group and for general working capital purposes.

As at the date of this report, Cloud Empire has not exercised its rights to convert the Convertible Bonds into Shares. For details of the terms of the Convertible Bonds, please refer to the Company's announcements dated 26th May 2017, 2nd June 2017, 20th June 2017 and note 17 to the unaudited condensed consolidated interim financial statements in this report respectively.

Capital Structure

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

Significant Investments/Material Acquisitions and Disposals

On 26th June 2017, Noble Rich Investment Limited, a wholly-owned subsidiary of the Company, as purchaser, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Phoenix Bridge International Holdings Group Investment Co., Limited, as vendor, and Wang Dade, as guarantor, to acquire 30,000,000 shares owned by the vendor which represent the entire issued share capital of Indeed Holdings Limited at a consideration of US\$43,000,000 (equivalent to HK\$335,400,000) subject to adjustments (the "Proposed Acquisition"). As at the date of this report, the Proposed Acquisition has not been completed because certain terms and conditions are not yet to be fulfilled. The details of the Proposed Acquisition were disclosed in the Company's announcements dated 26th June 2017, 17th July 2017 and 31st July 2017 and note 10 to the unaudited condensed consolidated interim financial statements in this report respectively.

Except for the above Proposed Acquisition, the investment in money market and private investment funds, equity and debt securities, the Group had no significant investment and no material acquisition or disposal during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Segment Information

The Group's core business segment is Information Home Appliances ("IHA"). The total revenue of the IHA segment for the Period and the three months ended 30th June 2017 significantly decreased by 42.6% and 50.2% to approximately HK\$180.3 million and HK\$108.1 million respectively as compared with the same periods of last year. Although the Group's revenue in Hong Kong and other overseas markets for the Period increased by 15.0% and 57.1% to approximately HK\$88.5 million and HK\$11.9 million respectively as compared with the same period of last year, the Group's revenue in the PRC and Australian markets significantly decreased by 78.9% and 57.2% to approximately HK\$17.8 million and HK\$62.0 million respectively as compared with the same period of last year due to a significant decrease in sales order received. At the same time, rising prices of raw material led to a big drop in the average gross profit margin of the Group for the Period. Consequently, the overall gross profit of the Group for the Period decreased significantly by 75.6% to approximately HK\$9.6 million as compared with the same period of last year and the gross profit margin only reached 5.3% for the Period (six months ended 30th June 2016: 12.5%). Consequently, the IHA segment recorded a loss of approximately HK\$22.4 million for the Period (six months ended 30th June 2016: a profit of approximately HK\$9.6 million).

The Group's investing segment is principally engaged in trading of securities and investing in financial instruments. This segment recorded a profit of approximately HK\$43.5 million for the Period (six months ended 30th June 2016: a loss of approximately HK\$58.4 million). The main reason was that the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$34.9 million for the Period (six months ended 30th June 2016: net losses of approximately HK\$75.7 million). This was the major reason for the significant decrease in the loss attributable to owners of the Company for the Period as compared with the same period of last year.

The leasing segment of the Group comprises leasing out of properties. This segment recorded a profit of approximately HK\$6.4 million for the Period (six months ended 30th June 2016: approximately HK\$2.1 million). The other operations segment of the Group mainly comprises trading, internet data processing and assets management. While for other operations segments, due to the lack of new breakthrough of trading business in recent years, and incurring certain exploration and development expenses in the new business of the Group during the Period, the Group recorded a loss of approximately HK\$17.3 million in this segment for the Period (six months ended 30th June 2016: approximately HK\$2.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Segment Information *(Continued)*

Geographical markets of the Group were mainly located overseas during the Period. Due to a significant decrease in the average selling price of the set-top box (“STB”) and the sales order received from an Australian customer, the overall revenue generated from the overseas markets for the Period decreased by 51.5% to approximately HK\$73.9 million as compared with the same period of last year. In the Hong Kong market, the Group has started to cooperate with a Hong Kong well-known television program operator to assist with its expansion on Over-the-Top TV (“OTT”) service in the Hong Kong market since 2016. As a result, the overall revenue in the Hong Kong market increased by 15.0% to HK\$88.5 million for the Period as compared with the same period of last year. As to the PRC market, the weakened procurement sentiment in the first half of 2017 and the keen market competition had led to a remarkable decrease in the sales quantity of STB. The revenue in the PRC market significantly decreased by 78.8% to approximately HK\$18.0 million as compared with the same period of last year. As such, the overall revenue of the Group significantly decreased by 42.6% to approximately HK\$180.4 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 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, appreciation in RMB against HKD resulted in the net exchange gains of approximately HK\$12.1 million (six months ended 30th June 2016: net exchange losses of approximately HK\$11.0 million). As at 30th June 2017, 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 2017, the Group had over 520 (30th June 2016: over 710) full time employees, of which 26 (30th June 2016: 20) were based in Hong Kong and the rest were in the PRC. Staff costs of the Group amounted to approximately HK\$42.4 million for the Period (six months ended 30th June 2016: approximately HK\$61.0 million). The slight decrease in the staff costs for the Period was mainly attributable to no non-cash expenses arising from the grant of share options and share awards by the Company to employees (six months ended 30th June 2016: approximately HK\$14.8 million). 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, share option scheme and share award scheme.

BUSINESS REVIEW

After more than ten years of development and under the steady growth of the global Internet Protocol Television ("IPTV") market, the Group's IPTV STB business has entered into a period of market maturity. With the accumulation of technological expertise over the years and the Group's own intermediary software platform, the Group can meet the needs of different customers, finish the work of integrating with termination systems and customising end products. Products launched by the Group in the markets include standard definition STB, high digital STB, hybrid dual mode STB, OTT/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 under review, the Group's overall revenue amounted to approximately HK\$180.4 million, representing a significant decrease of 42.6% as compared with the same period of last year. Although the Group's revenue in Hong Kong market for the Period increased by 15.0% to approximately HK\$88.5 million as compared with the same period of last year, the Group's revenue in the PRC and Australian markets significantly decreased by 78.8% and 57.2% to approximately HK\$18.0 million and HK\$62.0 million respectively as compared with the same period of last year due to a significant decrease in sales order received. At the same time, rising prices of raw material led to a big drop in the average gross profit margin for the Period. Consequently, the overall gross profit of the Group for the Period decreased significantly by 75.6% to approximately HK\$9.6 million as compared with the same period of last year and the gross profit margin only reached 5.3% for the Period (six months ended 30th June 2016: 12.5%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

In the PRC market, due to the weak procurement sentiment of the PRC customer in the first half of 2017 and further market competition, there is a remarkable decrease in the sales volume of STB in the PRC as compared with the same period of last year. Therefore, the overall revenue of the Group in the PRC market for the Period significantly decreased by 78.8% to only approximately HK\$18.0 million as compared with the same period of last year. If the Group's PRC customer changes its product and ceases to place order with the Group, the Group's business will continue to be adversely affected.

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, Russia, United States, Czechoslovakia, Vietnam, etc.. At the same time, the Group is actively exploring new markets in Bulgaria, United Kingdom and Denmark. Although there was an increase in purchase orders from a few overseas customers during the period under review, the demand detente from the Australian customer leads to the sales in Australia for the Period significantly decreased by 57.2% to approximately HK\$62.0 million as compared with the same period of last year. Consequently, overall revenue in overseas markets decreased significantly by 51.5% to approximately HK\$73.9 million for the Period 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 a cooperation relationship with a Hong Kong telecommunication operator in its marketing activities. Also, the Group has cooperated with a Hong Kong well-known television programme operator to assist with its expansion on OTT service in the Hong Kong market. Although the Group's overall revenue in the Hong Kong market increased by 15.0% to HK\$88.5 million for the Period as compared with the same period of last year, the rising prices of raw material led to a negative gross profit margin in this area which caused the overall gross profit of the Group for the Period to decrease.

As for investment business, the Group conducted some investments in the secondary market. Based on value investment, the Group only selected the investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment strategy, maintenance and appreciation of asset value are the long-term investment commitments of the Group. Meanwhile, the Group also constantly reviews and manages its investment portfolios. During the Period, the Group recorded net gains on financial assets/liabilities at fair value through profit or loss of approximately HK\$34.9 million (six months ended 30th June 2016: net losses of approximately HK\$75.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

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, factor such as fierce market competition in the PRC and overseas markets, the possible economic slowdown in the PRC, RMB exchange rate fluctuation, the drop in the selling price of products and the increase of production cost and labour cost may bring uncertain impact on the development of the IHA 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 those risks and uncertainties and will proactively adopt effective measures to tackle such risks and uncertainties.

Environmental Policies and Performance

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

Compliance with Laws and Regulations

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS PROSPECT

This year will be a challenging year to the Group. Under the current intense market competition conditions, the Group is confronting severe challenges. However, the Group will continue to improve its products to maintain a strong competitive advantage. Being one of the earliest companies developing in broadband STB in the world, the Group, with efforts in this field for over ten years and based on its accumulation of technological expertise over the years and its own research and development (“R&D”) capability, will continue to change the traditional model by working hard on exploring the linkage of Internet, television and telecom. Meanwhile, in order to acquire more sophisticated competitive advantages to improve innovation capabilities and to meet the different needs of its customers, the Group will put a higher proportion of investment in R&D, continue upgrading its products and also actively develop new products to adopt to new market opportunities. The Group expects its STB business to achieve a better performance in the near future.

Regarding its investment business, the Group will focus on investing in the IPTV related industries and the convergence of television, telecom and Internet fields. These fields contain emerging opportunities of huge convergence and great development. It is believed that the existing and the accumulated experiences of the IHA business of the Group will help to efficiently complete the value evaluation, the resources integration and the value upgrade of the invested companies. Meanwhile, the Group will also focus on home living Internet field and security cloud field based on the development of the convergence of computer, communication and consumer electrics, intelligent Internet and security technology. Besides, the Group also intends to take initiatives in developing businesses in relation to global IDC and cloud computing. 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 expand internationally by developing global cloud computing data centers for large scale corporations and global cloud computing total solutions for small and medium enterprises in the Greater China region. The Group will continue to proactively identify the proper development or investment opportunities to strengthen the business portfolio of the Group, integrate resources in the industry, and generate sustainable and steady financial performance in the long run. Maintenance and appreciation of asset value are still the long-term investment commitments of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 ("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.

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

On 16th January 2015, the Company offered to grant 186 eligible participants to subscribe for a total of 107,527,008 ordinary shares of HK\$0.025 each in the capital of the Company at an exercise price HK\$2.2 per share ("Share Options"). These Share Options are exercisable up to five years from the date of grant. On 8th June 2016, the Company removed vesting period of all existing Share Options which were 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 were 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 approximately HK\$7,564,000 million 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 during the six months ended 30th June 2017 and 2016 to subscribe for the shares in the Company are as follows:

For the six months ended 30th June 2017

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

SHARE OPTION SCHEME (Continued)

For the six months ended 30th June 2016

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Number of shares issuable under the Share Options					
				Outstanding as at 1st January 2016	Granted during the period	Reclassification of Category during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2016
Directors									
Mr. Zhu Weisha	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	-	-	-	1,792,116
Mr. Chen Furong (resigned on 20th May 2016)	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	(1,792,116)	-	-	-
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	-	6,500,000
Mr. Wang Anzhong (resigned on 20th June 2016)	16th January 2015	2.2	16th January 2015 – 15th January 2020	3,000,000	-	(3,000,000)	-	-	-
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	-	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Wu Jiajun	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Chief Executive Officer									
Mr. Kevin Choo	16th January 2015	2.2	16th January 2015 – 15th January 2020	8,000,000	-	-	-	-	8,000,000
Continuous contract employees	16th January 2015	2.2	16th January 2015 – 15th January 2020	59,210,776	-	4,792,116	(870,000)	(672,000)	62,460,892
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	-	-	-	-	1,920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,000,000	-	-	-	-	6,000,000
				<u>98,215,008</u>	<u>-</u>	<u>-</u>	<u>(870,000)</u>	<u>(672,000)</u>	<u>96,673,008</u>
Outstanding as at 30th June 2016									<u>96,673,008</u>
Weighted average exercise price (HK\$)				<u>2.2</u>	<u>-</u>	<u>2.2</u>	<u>2.2</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 were 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 were outstanding and unvested had been removed by the approval of the Shareholders at the SGM held on 8th June 2016.

Notes:

- (i) The price of the Shares before the date of the grant of the Share Options is the closing price of the Shares as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.
- (ii) Save as disclosed above, there were no Share Options which lapsed according to the terms of the Share Option Scheme during the Period (six months ended 30th June 2016: Nil).
- (iii) The weighted average closing price of the Shares immediately before the dates of exercise was HK\$2.43 for the six months ended 30th June 2016.

The non-cash share-based payment in respect of the Share Options for the Period was HK\$Nil (six months ended 30th June 2016: approximately HK\$14,788,000).

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

SHARE OPTION SCHEME *(Continued)*

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

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

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

SHARE AWARD SCHEME

Pursuant to a resolution of the Board meeting dated 6th October 2014 (the "Adoption Date of Share Award Scheme"), the Board approved the adoption of share award scheme (the "Share Award Scheme") under which the Shares may be awarded to selected employees (excluding any Director and any chief executive of the Company) (the "Selected Employees") in accordance with its provisions. The purpose of the Share Award Scheme is to recognise and reward the contribution of certain employees to the business growth and development of the Group through an award of the Shares. The Share Award Scheme will remain in force for a period of three years commencing on the Adoption Date of Share Award Scheme. The vesting period and vesting condition of the awarded shares are determined by the Board upon the grant of the awarded shares. A trust has been set up and fully funded by the Company for the purpose of purchasing, administering and holding the Shares for the Share Award Scheme. The total number of shares which may be granted to the Selected Employees under the Share Award Scheme shall not exceed 3% of the total issued share capital of the Company from time to time. For details of the Share Award Scheme, please refer to the announcement of the Company dated 6th October 2014.

For the six months ended 30th June 2017 and 2016, there was no movement in the number of shares held under Share Award Scheme.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2017, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company under 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. Shi Guangrong	Personal	22,660,000	Beneficial owner	1.26%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.44%
Mr. Gao Fei	Personal	540,000	Beneficial owner	0.03%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%
Mr. Zhong Pengrong	Personal	144,000	Beneficial owner	0.01%
Mr. Wu Jiajun	Personal	600,000	Beneficial owner	0.03%

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE 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 2017 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 2017
				Outstanding as at 1st January 2017	Granted during the period	Exercised during the period	Lapsed during the period	
Directors								
Mr. Shi Guangrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	7,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
Mr. Wu Jiajun	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
Chief Executive Officer								
Mr. Kevin Choo	16th January 2015	2.2	16th January 2015 – 15th January 2020	8,000,000	-	-	-	8,000,000
				<u>24,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,500,000</u>

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

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th June 2017, any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

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

So far as is known to any Directors or chief executive of the Company, as at 30th June 2017, 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:

(1) Long positions in the shares of the Company

Name of Shareholders	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage to the total issued share capital of the Company
Cloudrider Limited ("Cloudrider") (Note 1)	Corporate	450,357,200	Beneficial owner	24.98%
Lontrue Co., Ltd* (朗源股份有限公司) ("Lontrue") (Note 1)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Honbridge Holdings Limited (Stock Code: 8137) ("Honbridge") (Note 2)	Corporate	450,357,200	Person having a security interest in shares	24.98%
Hong Bridge Capital Limited ("Hong Bridge") (Note 2)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Mr. He Xuechu (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Ms. Foo Yatyan (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Super Dragon Co., Ltd. ("Super Dragon") (Note 3)	Corporate	116,365,800	Beneficial owner	6.45%

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

(2) Long position in the underlying shares of the Convertible Bonds of the Company

Name of the holder of the Convertible Bonds	Principal amount of the Convertible Bonds	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company
Cloud Empire <i>(Note 4)</i>	HK\$504,000,000 <i>(Note 5)</i>	360,000,000	19.97%

Notes:

- Reference is made to the announcements of the Company dated 11th April 2016, 12th April 2016 and 16th May 2016 in relation to a proposed disposal of shares in the Company by Super Dragon. Super Dragon has on 10th April 2016 entered into a sale and purchase agreement ("Sale and Purchase Agreement") with Cloudrider, in relation to a proposed sale by Super Dragon and proposed acquisition by the Cloudrider of 450,357,200 ordinary shares of the Company ("Sale Shares") (representing 25% of the issued ordinary shares of the Company as at 31st March 2016) at HK\$2.40 per share. On 16th May 2016, the transfer of the Sale Shares was completed as contemplated under the Sale and Purchase Agreement. According to the disclosure forms filed by Cloudrider and Lontrue on 19th May 2016, Lontrue holds 35.65% of the equity interest of Cloudrider and is deemed to be interested in 450,357,200 shares of the Company. Mr. Li Qiang, the executive Director and chairman of the Board of the Company, is the sole shareholder and director of Capital Melody Limited, holding 32.09% of the equity interest of Cloudrider as at 30th June 2017.
- Reference is made to the announcement of Honbridge dated 11th April 2016 and a circular dated 24th May 2016 in relation to a loan agreement dated 11th April 2016 between Honbridge and Cloudrider. A loan in the principal amount of HK\$540,000,000 granted by Honbridge to Cloudrider pursuant to a loan agreement at the rate of 3% per annum, which may be drawn down in two tranches (the "Loan"). The maturity date was 12 months after the drawdown of the Tranche A Loan, subject to an option to extend by Cloudrider to the date falling 24 months after the drawdown. The Loan is secured by (i) share charges provided by Bronze Pony Investments Limited and Capital Melody Limited having granted security over all of their shareholdings in Cloudrider; and (ii) a debenture consisting of a fixed and floating charge over all of the assets of Cloudrider in favour of Honbridge, or such other security as required by Honbridge to its satisfaction. According to the disclosure forms filed by Honbridge, Hong Bridge, Mr. He Xuechu and Ms. Foo Yatyan on 23rd September 2016, Hong Bridge holds more than one-third of the issued share capital of Honbridge and Mr. He Xuechu holds more than one-third of the issued share capital of Hong Bridge which in turn holds more than one-third of the issued share capital of Honbridge. As such, Mr. He Xuechu and Hong Bridge are deemed interested in 450,357,200 shares of the Company in which Honbridge has an interest. Ms. Foo Yatyan is deemed to be interested in 450,357,200 shares of the Company because the interests are related to the interests of children under 18 and/or spouse.

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

(2) Long position in the underlying shares of the Convertible Bonds of the Company *(Continued)*

Notes: (Continued)

3. Mr. Zhu Weisha holds these shares through Super Dragon, a company in which Mr. Zhu holds the entire issued share capital and of which he is the sole director.
4. Cloud Empire, a company incorporated under the laws of British Virgins Islands. According to the disclosure forms filed by Cloud Empire, ABCI Investment Management Limited ("ABCI Investment"), ABC International Holdings Limited ("ABC International"), Agricultural Bank of China Limited ("ABC"), Ministry of Finance of the People's Republic of China and Central Huijin Investment Ltd. ("Central Huijin") on 31st May 2017, ABCI Investment, ABC International, ABC, Ministry of Finance of the People's Republic of China and Central Huijin are also deemed to be interested in such Convertible Bonds of the Company under the SFO.
5. On 26th May 2017, the Company entered into a subscription agreement with Cloud Empire as the subscriber in relation to the issue of Convertible Bonds in the principal amount of HK\$504,000,000. The Convertible Bonds can be converted into maximum 360,000,000 ordinary shares of the Company at the initial conversion price of HK\$1.4 per share (subject to adjustments). The issue was completed on 20th June 2017 with net proceeds of approximately HK\$500.2 million.

Save as disclosed above, as at 30th June 2017, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

COMPETING INTERESTS

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

CORPORATE GOVERNANCE

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

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.

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

Changes in the information of Directors since the date of the 2016 annual report of the Company which are required to be disclosed pursuant to Rule 17.50B of the GEM Listing Rules are set out below:

1. Mr. Li Qiang had been re-designated from co-chairman of the Company to chairman of the Company and appointed as the chairman of the nomination committee with effect from 8th March 2017; and
2. Mr. Gao Fei, an executive director, had been appointed as an authorised representative of the Company with effect from 24th February 2017.

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee") on 20th November 1999 with written terms of reference in compliance with rules 5.28 to 5.33 of the GEM Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Ms. Shen Yan (Chairman), Mr. Zhong Pengrong and Mr. Wu Jiajun.

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

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

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

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

SECURITIES TRANSACTIONS BY THE DIRECTORS

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

By order of the Board

Yuxing InfoTech Investment Holdings Limited

Li Qiang

Chairman

Hong Kong, 10th August 2017

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