

RUIYUAN
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浙江瑞遠智控科技股份有限公司

Zhejiang RuiYuan Intelligent Control Technology Company Limited

(a joint stock limited company incorporated in the People's Republic of China)

Stock code: 8249



2017

Third Quarterly Report

*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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Zhejiang RuiYuan Intelligent Control Technology Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

This report will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at www.ruiyuanhk.com.

* For identification purposes

2017 THIRD QUARTERLY RESULTS

The board of Directors of the Company (the "Board") is pleased to announce that the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September 2017 together with the unaudited comparative figures for the corresponding period in 2016 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and nine months ended 30 September 2017

	Note	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	3	11,420	3,323	30,503	9,193
Cost of sales		(11,042)	(3,121)	(29,397)	(8,028)
Gross profit		378	202	1,106	1,165
Other income	3	–	40	14	43
Loss on deregistration of subsidiary		–	–	(34)	–
Administrative expenses		(530)	(1,613)	(3,891)	(3,735)
Loss from operations		(152)	(1,371)	(2,805)	(2,527)
Finance costs		(964)	(15)	(1,603)	(31)
Loss before tax		(1,116)	(1,386)	(4,408)	(2,558)
Income tax credit/(expenses)	4	13	–	(18)	–
Loss for the period		(1,103)	(1,386)	(4,426)	(2,558)
Items that may be reclassified subsequently to profit or loss					
Exchange difference arising on translation of foreign operation		(5)	3	48	3
Total comprehensive income for the period		(1,108)	(1,383)	(4,378)	(2,555)
Loss per share					
— Basic (cents per share)	5	(0.22)	(0.28)	(0.89)	(0.51)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2017

Attributable to owners of the Company							
	Share capital	Capital reserve	Other reserve	Statutory surplus reserve	Translation reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	50,000	40,449	256,623	24,998	13	(420,461)	(48,378)
Exchange differences	—	—	—	—	3	—	3
Loss for the period	—	—	—	—	—	(2,558)	(2,558)
At 30 September 2016	50,000	40,449	256,623	24,998	16	(423,019)	(50,933)
At 1 January 2017	50,000	40,449	256,623	24,998	(63)	(423,085)	(51,078)
Arising from loan from a major shareholder	—	—	9,883	—	—	—	9,883
Exchange differences	—	—	—	—	48	—	48
Loss for the period	—	—	—	—	—	(4,426)	(4,426)
At 30 September 2017	50,000	40,449	266,506	24,998	(15)	(427,511)	(45,573)

Notes:

1. General information

Zhejiang RuiYuan Intelligent Control Technology Company Limited (the "Company") is a joint stock limited liability company incorporated in the People's Republic of China (the "PRC") and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (collectively, the "Group") are design, manufacture and sale of intelligent controller systems for consumer electrical and electronic appliances and the assembly of mobile phones in the PRC.

2. Basis of preparation

The unaudited condensed consolidated results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The accounting policies adopted in preparing the unaudited condensed consolidated results for the nine months ended 30 September 2017 (the "period") are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

The condensed consolidated results for the nine months ended 30 September 2017 are unaudited and have been reviewed by the audit committee of the Company.

The Group has not early adopted the new and revised standards and amendments to standards that have been issued but are not yet effective for the nine months ended 30 September 2017.

3. Revenue and other income

The revenue, which is also the Group's turnover, represents the amounts received and receivable for goods sold by the Group to outside customers, net of discounts and sales related taxes, and is set out below:

	Notes	Unaudited For the three months ended 30 September 2017		Unaudited For the nine months ended 30 September 2017	
		RMB'000	2016 RMB'000	RMB'000	2016 RMB'000
Turnover					
Sales of controller systems for consumer electrical and electronic appliances		11,420	3,323	30,503	9,193
		11,420	3,323	30,503	9,193
Other income					
Others		-	40	14	43
Total income		11,420	3,363	30,517	9,236

4. Income tax credit/(expenses)

The taxation charges represent:

	Notes	Unaudited For the three months ended 30 September		Unaudited For the nine months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Current taxation:					
— PRC income tax		13	—	(18)	—
Taxation credit/(charges)		13	—	(18)	—

- (i) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the period (2016: Nil).
- (ii) The Group is subject to an income tax rate of 25% on their taxable profit in accordance with the income tax law in the PRC (2016: 25%).

5. Loss per share

Loss per share is calculated based on the Group's loss attributable to shareholders for the three months and nine months ended 30 September 2017 of approximately RMB1,103,000 and RMB4,426,000 (2016: RMB1,386,000 and RMB2,558,000) and 500,000,000 shares (2016: 500,000,000 shares) in issue during the period respectively.

Diluted loss per share is not presented as the Company has no dilutive potential ordinary shares during the respective periods.

6. Dividend

No dividend was distributed during the period. The Board does not recommend the payment of dividend for the nine months ended 30 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

The Group's operational activities mainly comprise sales of intelligent controller systems and digital control systems for consumer electrical and electronic appliances.

The Group's activities are primarily operated in the PRC and the Group's revenue is mainly attributable to customers in the PRC and Hong Kong.

With respect to product strategies in 2017, the Company took the initiative to develop the businesses of industrial electronic intelligent control equipment, machinery and equipment, industrial electronic automation digital control systems, and gradually enhanced the innovation level of its own products and technologies with the introduction of more high-end technological electronic products. Thanks to marketing staff of the members of the Group for actively developing and expanding its businesses, market and development prospects of the Group are promising.

Currently, the marketing team of the Group has extended its business to customers in numerous cities such as Shanghai, Hangzhou, Nanjing, Jiaxing, Zibo, Wuxi, Hefei and Cixi.

The Group is waiting for emergence of profitable opportunities before expanding current operation. Actively taking the advantages of the Group's production capability, it is anticipating better opportunities under the latest market situation.

Financial review

The Group recorded a turnover of approximately RMB30,503,000 (2016: RMB9,193,000) for the nine months ended 30 September 2017, representing an increase of approximately RMB21,310,000. The main reason for the increase in turnover was due to the increase in revenue generated from the new products introduced and new markets expanded by the Group amid intense competition in the industry. A significant part of such revenue was derived from sales to a strategic customer and its group companies as they experienced rapid business expansion and hence significantly increased demand for products of the Company during the reporting period. The Group is actively developing new markets in various cities in the PRC for its products in order to form its own sales network and establish its own sales customer base.

Loss attributable to shareholders was approximately RMB4,426,000 (2016: Loss of RMB2,558,000), representing an increase of loss of approximately RMB1,868,000. The main reasons for the Group to record an increased loss were that:

- (i) the gross profit margin of the Group's products was lowered due to the fact that the Group strived to gain more market shares for its newly developed products which resulted in the increase in cost of sales in relation to such new products; and
- (ii) the Group incurred additional legal and professional fees in defending, amongst others, the Company and its subsidiary Hong Kong Wan Li Enterprise Company Limited, in the Labour Tribunal of Hong Kong.

Hence, despite a notable growth in the Group's turnover during the nine months ended 30 September 2017, it continued to record a net loss for this period.

For the nine months ended 30 September 2017, the gross profit margin was 3.6% (2016: 12.7%). The Group strived to gain more market shares and expand the sales market for its newly developed products, which resulted in the increase in cost of sales in relation to such new products, and in turn led to the decrease in gross profit margin of the Group's products. The low profit margin during the period was mainly due to the increase of sales of products with lower profit margin.

Administrative expenses recorded an increase of approximately RMB156,000 over the previous period. The increase in administrative expenses was mainly due to the increase in legal and professional fees. The Group will continue to procure cost control to mitigate the impact from price competition caused by the intense competition in electronic and machinery industries.

Finance cost represents the imputed interest on loan from a major shareholder.

Contingent liabilities and commitments

On 4 November 2016, a former employee of the Company commenced proceedings in the Labour Tribunal of Hong Kong against the Company and its subsidiary, Hong Kong Wan Li Enterprise Company Limited for claiming a total amount of approximately HK\$2,600,000. The Company has vigorously made a defence against the claims. After the previous two mention hearings, a judgement was issued by the Labour Tribunal that the claim against the subsidiary was discharged. Subsequently, the Labour Department instituted prosecution against the Company on 12 September 2017. In the hearing held at the Kwun Tong Magistrates' Courts on 12 October 2017, the Company answered to the magistrate that it did not intend to violate the requirements of relevant laws, and such violation was due to the former employee's misunderstanding on the identity of the employer, i.e. the Company, and falsely took out employee's compensation insurance in the name of a subsidiary of the Company, which led to failure to fulfill the Company's responsibility to take out employee's compensation insurance. After the dismissal of the former employee, the next secretary has made remedy by taking out employee's compensation insurance to prevent the reoccurrence of similar incidents. The Company was convicted by the magistrate on the relevant charge and was fined HK\$2,500 for such incident. Such fine was paid by the Company on 18 October 2017.

On 18 September 2017, the former employee of the Company filed a complaint to the Mandatory Provident Fund Schemes Authority that the Company failed to make contribution to the Mandatory Provident Fund for such former employee. The Company has vigorously made a defence against the complaint.

Taking into account the possible outcome and their obligations for the claim, the Group has made a provision for claim of approximately RMB86,000 (equivalent to approximately HK\$96,000) for the six months ended 30 June 2017. For the nine months ended 30 September 2017, the Group actually paid HK\$31,034.89.

Since the claim is still in progress, the Directors would continue to exercise their due care in monitoring the progress of the claim and would assess the adequacy of provision of claim and the financial impact to the Group as and when appropriate.

Save as disclosed above, the Group had no material contingent liabilities.

Event after the reporting period

As at the date of this report, there was no significant event relevant to the business or financial performance of the Group that come to the attention of the Directors after the reporting period.

Prospect

The Group understands that its own competitive capability in product innovation and quality is important to future growth in sales and operation. Operation processes are continuously streamlined. The Group is moving forward with realistic measures and goals and in accordance with feasible plans. The Group has established strategic partnerships with various companies and is now actively expanding the products and sales markets, laying the foundation for the increase in the trading business of intelligent control systems. At present, the Group's products for sale include electronic components, communication equipment, industrial electronic intelligent control system and AC servo motors. Such products have gradually been recognized by the market and customers. The application of industrial electronic intelligent control system and intelligent robot developed by the Group has been gradually available to the market, making the market and development prospects of the Group promising.

Dividend

No dividend was distributed during the period. The Board does not recommend the payment of dividend for the nine months ended 30 September 2017.

RIGHTS OF DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS TO ACQUIRE SHARES

During the nine months ended 30 September 2017, none of the Directors, chief executive (if any) (the "Chief Executive") or supervisors of the Company (the "Supervisors") or their spouse or children under the age of 18 was granted any right to acquire shares of the Company or any of its associated corporation (as referred below), or had exercised any such right.

DISCLOSURE OF DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS

So far as known to the Directors, at 30 September 2017, the interests and short positions of each Director, Chief Executive and Supervisor in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as required pursuant to Section 352 of the SFO to be recorded in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings of securities by directors and supervisor of listed issuers as referred to in Rule 5.46 of the GEM Listing Rule, were as follows:

Long positions in shares

Name of Director/ Chief Executive/ Supervisor	Number of Shares held	Nature of interest	Approximate percentage of shareholding held in same class of securities	Approximate percentage of shareholding in the registered capital
<i>Director</i>				
Mr. He Keng ("Mr. He")	370,000,000 Domestic Shares (note 2)	Interest of corporation	100.00%	74.00%
	1,000 H Shares (note 3)	Beneficial owner	0.0008%	0.0002%

Notes:

- (1) Domestic shares of a nominal value of RMB0.10 each (the "Domestic Shares"), in the registered capital of the Company, which are subscribed for or credited as fully-paid in Renminbi. "H share(s)" represent overseas listed foreign share(s) of a nominal value of RMB0.10 each ("H Share(s)") in the registered capital of the Company, which are listed on the GEM and subscribed for and traded in Hong Kong dollars.
- (2) On 11 July 2016, Zhejiang RuiYuan Intelligent Robot Company Limited* ("Zhejiang RuiYuan") entered into a share transfer agreement with (Wan Li Group Company Limited* (萬里控股集團股份有限公司) ("Wanli"), Mr. Qi Yong Qiang ("Mr. Qi") and other parties, pursuant to which, among other things, Zhejiang RuiYuan agreed to acquire (i) 306,900,000 Domestic Shares held by Wanli and 15,775,000 Domestic Shares held by Mr. Qi (collectively the "First Batch Sale Shares") and (ii) 47,325,000 Domestic Shares held by Mr. Qi (the "Second Batch Sale Shares"). After completion of the transfer of the First Batch Sale Shares and the Second Batch Sale Shares, Mr. He and parties acting in concert with it owned an aggregate of 370,000,000 Domestic Shares, representing approximately 74.00% of the entire issued share capital of the Company as at 30 September 2017.

- (3) As a result of the mandatory cash offer following the sale and purchase of the First Batch Sale Shares and the Second Batch Sale Shares (the "Mandatory Cash Offer"), which closed at 4 pm on 14 September 2016, Mr. He acquired valid acceptances in respect of 1,000 H Shares. Accordingly, Mr. He was interested in 1,000 H Shares as at 30 September 2017.

Save as disclosed above, at no time during the nine months ended 30 September 2017 did the Directors, Chief Executives and Supervisors (including their spouse and children under 18 years of age) have any interests or short positions in, or had they been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations (within the meaning of SFO).

Apart from the above, at no time during the nine months ended 30 September 2017 was the Company or any of its subsidiaries a party to any arrangement enabling the Directors, Chief Executives and Supervisors to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Furthermore, at no time during the nine months ended 30 September 2017 was there any arrangement whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or its associated corporation.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES OF THE COMPANY

Long positions in shares

So far as the Directors are aware, as at 30 September 2017, the persons or companies (other than the Director or chief executive of the Company) have interests and/or long positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of substantial shareholders	Number of shares held	Nature of interest	Approximate percentage of shareholding held in same class of securities	Approximate percentage of shareholding in the registered capital
Zhejiang RuiYuan	370,000,000 Domestic Shares (Notes 2 and 3)	Beneficial owner	100%	74%
Shaoxing Qinyuan Electronic Technology Company Limited* ("Shaoxing Qinyuan")	47,325,000 Domestic Shares (Note 5)	Nominee for another person	12.79%	9.47%
Hangzhou Qindie Electronic Equipment Company Limited* ("Hangzhou Qindie")	370,000,000 Domestic Shares (Notes 2 and 4)	Interest of corporation	100%	74%
Zhujijinfu Electrical Equipment Company Limited* ("Zhujijinfu")	370,000,000 Domestic Shares (Notes 2 and 4)	Interest of corporation	100%	74%
Mr. Tang Jingfeng	370,000,000 Domestic Shares (Notes 2 and 4)	Interest of corporation	100%	74%
Mr. Zhao Zhongxin	370,000,000 Domestic Shares (Notes 2 and 4)	Interest of corporation	100%	74%
Mr. He Yanggen	370,000,000 Domestic Shares (Notes 2 and 4)	Interest of corporation	100%	74%
Martin Currie China Hedge Fund Limited	14,245,000 H Shares	Investment manager	10.96%	2.85%
Martin Currie Investment Management Limited	14,245,000 H Shares	Investment manager	10.96%	2.85%

* For identification purposes

Notes:

- (1) Domestic Shares of a nominal value of RMB0.10 each, in the registered capital of the Company, which are subscribed for or credited as fully-paid in Renminbi. "H Share(s)" represent overseas listed foreign share(s) of a nominal value of RMB0.10 each in the registered capital of the Company, which are listed on the GEM and subscribed for and traded in Hong Kong dollars.
- (2) On 11 July 2016, Zhejiang RuiYuan entered into a share transfer agreement with Wanli, Mr. Qi and other parties, pursuant to which, among other things, Zhejiang RuiYuan agreed to acquire (i) the First Batch Sale Shares from Wanli and Mr. Qi and (ii) the Second Batch Sale Shares from Mr. Qi. After completion of the transfer of the First Batch Sale Shares and the Second Batch Sale Shares. The transfer of the Second Batch Sale Shares from Mr. Qi to Zhejiang RuiYuan had been completed, after which Zhejiang RuiYuan and parties acting in concert with it owned an aggregate of 370,000,000 Domestic Shares, representing approximately 74% of the entire issued share capital of the Company as at 30 September 2017.
- (3) Zhejiang RuiYuan is a joint stock company incorporated in the PRC with limited liability and is owned as to 55% by Hangzhou Qindie and as to 45% by Zhuji Jinfu.
- (4) Hangzhou Qindie is a company established in the PRC and is owned as to 51% by Mr. He and as to 49% by Mr. Tang Jingfeng. Zhuji Jinfu is a company established in the PRC and is owned as to 50% by Mr. Zhao Zhongxin and as to 50% by Mr. He Yanggen.
- (5) Shaoxing Qinyuan, to whom the Second Batch Sale Shares were transferred, is the nominee for Zhejiang RuiYuan and a company that is owned as to 60% by Mr. He and 40% by Mr. Tang Jinfeng.

Save as discussed above, the Directors are not aware of any person (other than the Directors whose interests are set out in the section headed "Disclosure of Directors', Chief Executives' and Supervisors' Interests and Short Positions" in the shares of the Company above) holding any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 September 2017.

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

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

COMPETING INTERESTS

None of the Directors, Supervisors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in any business that directly or indirectly competes with the business of the Group or has any other conflicts of interest.

CORPORATE GOVERNANCE

For the nine months ended 30 September 2017, the Company has complied with the code provisions set out in the Code on Corporate Governance Code as stated in Appendix 15 to the GEM Listing Rules except the following deviation from Code Provision A.2.1:

Mr. He is the Chairman of the board of directors. The Company has no such title as the chief executive officer and the daily operation and management of the Company is monitored by the executive directors as well as the senior management. The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting the operations of the Company.

AUDIT COMMITTEE

The Company has established an audit committee since 1 June 2003 with written terms of reference (updated on 28 June 2013 and 15 March 2017) based on the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Kwok Kim Hung Eddie, who is the Chairman of such committee, Mr. Zhang Zhuoyong, and Mr. Zhang Tiewi.

The Audit Committee has reviewed with the senior management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of the Group's unaudited consolidated financial statements for the nine months ended 30 September 2017.

By order of the Board
Zhejiang RuiYuan Intelligent Control Technology Company Limited*
He Keng
Chairman and Executive Director

Ningbo, The PRC, 13 November 2017

As at the date of this report, the Board comprises the following directors:

EXECUTIVE DIRECTORS

Mr. He Keng (*Chairman*)
Ms. Wu Shanghong
Mr. Cheng Weiqiang
Mr. Ding Cheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhuoyong
Mr. Zhang Tiewi
Mr. Kwok Kim Hung Eddie