On Real International Holdings Limited
安悅國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8245

Third Quarterly Report 2017

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*This report, for which the directors (the "**Directors**") of On Real International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") 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, 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.*

Contents

FINANCIAL HIGHLIGHTS

- Revenue of the Company for the nine months ended 31 December 2017 amounted to approximately HK$229.9 million, representing an decrease of approximately 9.0% as compared with that of approximately HK$252.5 million for the nine months ended 31 December 2016.

- Loss attributable to the owner of the Company for the nine months ended 31 December 2017 amounted to approximately HK$8.4 million compared with profit of approximately HK$6.0 million for the nine months ended 31 December 2016.

- Basic and diluted loss per share for the nine months ended 31 December 2017 amounted to approximately HK cents 0.22 (profit per share for the nine months ended 31 December 2016: HK cents 0.16).

- The Directors do not recommend the payment of any dividend in respect of the nine months ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of Directors (the "**Board**") of the Company is pleased to present the unaudited condensed consolidated results of the Group for the nine months ended 31 December 2017, together with the unaudited comparative figures for the corresponding periods in 2016.

BUSINESS REVIEW

The Group is a two-way radio product designer and manufacturer established in 2001. We derive the revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis.

The Group's revenue decreased from approximately HK$252.5 million for the nine months ended 31 December 2016 to approximately HK$229.9 million for the nine months ended 31 December 2017, representing a decrease of approximately 9.0%. Such decrease was mainly due to the drop of number of purchase orders from two major customers during the nine months ended 31 December 2017.

The Group's revenue of two-way radios decreased by approximately 18.2% from approximately HK$215.2 million for the nine months ended 31 December 2016 to approximately HK$176.0 million for the nine months ended 31 December 2017 mainly due to the decrease in demand from our customers.

The Group's revenue of baby monitor decreased by approximately 24.0% from approximately HK$24.6 million for the nine months ended 31 December 2016 to approximately HK$18.7 million for the nine months ended 31 December 2017 mainly due to the decrease in demand of our audio baby monitor products.

The Group's revenue of other products increased by approximately 112.7% from approximately HK$12.6 million for the nine months ended 31 December 2016 to approximately HK$26.8 million for the nine months ended 31 December 2017 mainly due to the increase in sales of materials and parts to customers in the People's Republic of China (the "**PRC**").

The Group's revenue of service business significantly increased by approximately 128 times from approximately HK$64 thousand for the nine months ended 31 December 2016 to approximately HK$8.3 million for the nine months ended 31 December 2017 mainly due to increase in the provision of electric manufacturing servicing business.

The following tables set forth the breakdowns of the turnover of the Group by product/service categories for each of the nine months ended 31 December 2017 and 2016:

Three months ended 31 December

	2017		2016		**Increase (Decrease)**	
	HK$'000	**%**	HK$'000	%	HK$'000	%
	(Unaudited)		(Unaudited)			
Two-way radio	**65,365**	**82.6**	80,518	82.4	(15,153)	(18.8)
Baby monitors	**5,408**	**6.8**	14,716	15.0	(9,308)	(63.3)
Service business	**1,702**	**2.2**	21	0.0	1,681	8,004.8
Other products	**6,666**	**8.4**	2,575	2.6	4,091	158.9
Total	**79,141**	**100**	97,830	100	(18,689)	(19.1)

Nine months ended 31 December

	2017		2016		**Increase (Decrease)**	
	HK$'000	**%**	HK$'000	%	HK$'000	%
	(Unaudited)		(Unaudited)			
Two-way radio	**176,039**	**76.6**	215,246	85.2	(39,207)	(18.2)
Baby monitors	**18,704**	**8.1**	24,596	9.7	(5,892)	(24.0)
Service business	**8,260**	**3.6**	64	0.1	8,196	12,806.3
Other products	**26,848**	**11.7**	12,625	5.0	14,223	112.7
Total	**229,851**	**100**	252,531	100	(22,680)	(9.0)

OUTLOOK

The new products pipeline of the Group has competitive power, with new models categories of consumer two-way radios, commercial two-way radios and baby monitors.

Our business objectives are to grow our existing business, diversify our revenue streams and expand our customer base by expanding product offerings and features, improving information technology system and strengthening management and widening sales channel.

On 11 December 2017, On Real Limited (as vendor), an indirect wholly-owned subsidiary of the Company, and Smart Tech Development Limited (as purchaser) entered into a disposal agreement (the "**Disposal Agreement**"), pursuant to which On Real Limited has conditionally agreed to sell and Smart Tech Development Limited has conditionally agreed to purchase the entire issued share capital in Onward Technology Development Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK$9.5 million (the "**Disposal**").

The Directors have been continuously evaluating the current business strategies of the Group with an aim to streamline its business and improve its overall performance. The Group has continuously focusing on research and development of products and strength its products portfolio, to enhance the information and management system, and to strengthen its marketing efforts. The Disposal is therefore a step to achieve the cost restructuring plan of the Group and to reduce the costs of production and contingent liabilities for the labour cost. After completion of the Disposal, the Group would further subcontract out the manufacturing work and the Onward Technology Development Limited and its subsidiaries (the "**Disposal Group**") would become one of the subcontractors. However, the raw materials and production techniques will continue to be sourced or supplied by the Group.

Completion of the Disposal is subject to fulfillment or waiver (as the case may be) of the conditions precedent under the Disposal Agreement, therefore the Disposal may or may not proceed. Details of the Disposal were set out in the Company's announcement dated 11 December 2017.

Below are the progress of the objectives and strategies as disclosed in our prospectus (the "**Prospectus**") dated 18 September 2015:

i) Strengthen our product portfolio: we are continuing to develop new high-end two-way radio and baby monitor products with new features and technologies. The high-end commercial two-way radio for European market was launched in third quarter of 2017. A new series of analog radio with new outlook has been launched by the end of 2017. Another high-end marine two-way radio is expected to be launched in 2018. A new series of baby monitor products has been launched in third quarter in 2017.

   In addition, the first model of 3D car camera system was launched in first quarter of 2017, a car camera system was launched by the end of 2017 as well.

ii) Enhance our information management system: We will keep evaluating our information management system, upon the market condition, we will target to improve our information system to cope with the communication between our customers and suppliers.

iii) Strengthen our marketing efforts: we continue to maintain our market presence and expand our sales channels and strengthen the presence in the US and the PRC by introducing our products and services to potential customers. We started to explore new sales channels to launch new products in North America through participating in a crowd funding activity already. We will continue to explore if this can be an effective tool for further enhancement of the market in the future.

In additional to the objectives and strategies as disclosed in Prospectus, we are proceeding costs migration of our fixed overhead in manufacturing into a variable cost in order to increase the flexibility of operation the business.

PROSPECT

Our business objectives are to grow our existing business, diversify our revenue streams and expand our customer base by expanding product offerings and features, improving information technology system and strengthening management and widening sales channel.

The Group will continue to put effort in developing new models of our products, and aim to streamline the business and improve overall performance of the Group which are expected to bring growth potential for revenue to the Group and returns to the shareholders of the Company.

FINANCIAL REVIEW

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised of raw material cost, direct labour costs and subcontracting fees. The cost of sales remained stable at approximately HK$213.6 million for the nine months ended 31 December 2016 and 31 December 2017. The gross profit margin decreased from approximately 15.4% for the nine months ended 31 December 2016 to approximately 7.1% for the nine months ended 31 December 2017, mainly due to the increase in customs duties in PRC, the increase in raw material cost and the increase in sales of lower margin products ("**other products**" in market segment) comparing with other product categories which in turns drag down the entire profit margin of the Group.

Selling and distribution expenses

The selling and distribution expenses decreased from approximately HK$3.4 million for the nine months ended 31 December 2016 to approximately HK$2.9 million for the nine months ended 31 December 2017, which was mainly due to marketing and promotion expenses for new sales and distribution network's setup fee in North America incurred in the corresponding period in last year.

Administrative Expenses

The administrative expenses decreased from approximately HK$29.3 million for the nine months ended 31 December 2016 to approximately HK$26.1 million for the nine months ended 31 December 2017.

Loss attributable to the owners of the Company

The Group recorded a loss of HK$8.4 million for the nine months ended 31 December 2017, compared to profit of HK$6.0 million for the nine months ended 31 December 2016 due primarily to the decrease in Group's gross profit, incurred in the nine months ended 31 December 2017.

Dividend

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2017.

Use of Proceeds from the Listing

On 30 September 2015, 120,000,000 ordinary shares of the Company were allotted at HK$0.57 per placing share pursuant to the Placing (as defined in the Prospectus). The net proceeds from the Placing received by the Company were approximately HK$30.9 million (after deduction of any related expenses). As at 31 December 2017, the unused proceeds of approximately HK$12.5 million were deposited into licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out above.

During the nine months ended 31 December 2017, the net proceeds had been utilized as follows:

	Actual net proceeds	**Amount utilised up to 31 December 2017**	**Balance as at 31 December 2017**
	HK$ Million	HK$ Million	HK$ Million
Strengthen our product portfolio	21.7	12.5	9.2
Enhance our information management systems	2.4	—	2.4
Strengthen our marketing efforts	4.0	3.2	0.8
Working capital and other general corporate purposes	2.8	2.7	0.1
Total	30.9	18.4	12.5

OTHER INFORMATION

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

At 31 December 2017, Mr. Tam Wing Ki ("**Mr. Tam**"), the executive Director and chief executive officer of the Company, and Mr. Gao Hong, the executive Director of the Company, had the following interests in the shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**") as recorded in the register required to be kept under section 352 of SFO:

Name of Shareholders	Name of Companies	Capacity	Number of shares and underlying shares	Percentage of shareholding
Mr. Tam	the Company	Beneficial owner	898,176,000	23.39%
Mr. Gao Hong	the Company	Beneficial owner	6,000,000	0.16%

Note: All interests stated above represent long positions.

Save as disclosed herein, as at 31 December 2017, none of the Directors or chief executive of the Company or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them has taken or deemed to have taken under the provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required, pursuant to Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on the GEM Listing Rules, to be notified to the Company and the Stock Exchange. There were no debt securities issued by the Group during the nine months ended 31 December 2017.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

So far as is known to the Directors, at 31 December 2017, the following shareholders had interests in the shares or underlying shares of the Company and its as associated corporations within the meaning of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of Shares	Percentage of shareholding
Solution Smart Holdings Limited ("**Solution Smart**") *(Note 1)*	Beneficial owner	1,125,896,000	29.32%
SW Venture Asia Limited *(Note 1)*	Interest in a controlled corporation	1,125,896,000	29.32%
Mr. Yeung Shing Wai *(Note 1)*	Interest in a controlled corporation	1,125,896,000	29.32%
SMK Investment Company Limited ("**SMK**") *(Note 2)*	Beneficial owner	898,176,000	23,39%
Mr. Tam *(Note 2)*	Interest in a controlled corporation	898,176,000	23.39%
Ms. Tang Yin Ping *(Note 3)*	Interest of his child under 18 or spouse/interest of a substantial shareholder's child under 18 or spouse	898,176,000	23.39%
Huge China Holdings Limited	Beneficial owner	210,230,000	5.47%
Zhang Jun	Beneficial owner	209,247,000	5.45%

Notes:

1. Mr. Yeung Shing Wai is the sole beneficial shareholder of SW Venture Asia Limited, which is the sole beneficial shareholder of Solution Smart. Therefore, Mr. Yeung Shing Wai and SW Venture Asia Limited are deemed to be interested in 1,125,896,000 shares of the Company held by Solution Smart under the SFO.

2. Mr. Tam, the Director and chief executive officer of the Company, is the sole beneficial shareholder of SMK. Therefore, Mr. Tam is deemed to be interested in 898,176,000 shares of the Company held by SMK under the SFO.

3. Ms. Tang Yin Ping is the spouse of Mr. Tam. Therefore, Ms. Tang Yin Ping is deemed to be interested in 898,176,000 shares of the Company held by Mr. Tam under the SFO.

Save as disclosed above, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the nine months ended 31 December 2017.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the nine months ended 31 December 2017, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company has complied with the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to the GEM Listing Rules throughout the nine months ended 31 December 2017. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the nine months ended 31 December 2017, except for certain deviations as specified with considered reasons for such deviations as explained below.

Under Code Provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the nine months ended 31 December 2017 under review, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Tam is currently performing the roles of chairman and chief executive officer of the Company. Taking into account Mr. Tam is the founder of the Group and has been operating and managing the Group since 2001, the Board considers that the roles of chairman and chief executive officer being performed by Mr. Tam enable more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Except for the deviation from the CG Code as set out above, the Company fully complied with all the Code Provisions throughout the nine months ended 31 December 2017.

DIRECTORS' SECURITIES TRANSACTIONS

The Group had adopted Rules 5.46 to Rules 5.67 of the GEM Listing Rules ("**Model Code**") as its own code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry with all the Directors and all the Directors of the Company had confirmed compliance with the required standard of dealings and the code of conduct for Directors' securities transactions during the nine months ended 31 December 2017.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the nine months ended 31 December 2017.

SHARE OPTION SCHEME

The share option scheme of the Company ("**Scheme**") was adopted pursuant to a resolution passed by the Company's shareholders on 16 September 2015 for the primary purpose is to attract, retain and motivate talented participants, to strive for future developments and expansion of the Group. Eligible participants of the Scheme include any employees, any executives, non-executive Directors (including independent non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Scheme is adopted, after which period no further share options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the Scheme may continue to be exercisable in accordance with their terms of issue. The principal terms of which were summarized in the paragraph headed "Share Option Scheme" in Appendix IV to the Prospectus. No share options have been granted under the Scheme since its adoption.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by Lego Corporate Finance Limited ("**Lego**"), the compliance adviser of the Company, except for the compliance adviser agreement entered into between the Company and Lego dated 26 January 2016, neither Lego nor its directors, employees or close associates (as defined under the GEM Listing Rules) is materially interested in any contract or arrangement or had any interests in the securities of the Company for the period from 26 January 2016 to 31 December 2017.

AUDIT COMMITTEE

The existing audit committee of the Company (the "**Audit Committee**") consists of three independent non-executive Directors, chaired by Mr. Wong Ching Wan and the other two members are Mr. Chan Shiu Man and Mr. Fung Chan Man Alex.

The unaudited third quarterly financial results of the Group for the nine months ended 31 December 2017 have been reviewed by the Audit Committee.

By Order of the Board
On Real International Holdings Limited
Tam Wing Ki
Chairman and Executive Director

Hong Kong, 14 February 2018

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 31 December 2017

The Board is pleased to announce the unaudited consolidated results of the Group for the nine months ended 31 December 2017, together with the comparative figures for the corresponding period in 2016 which have been reviewed and approved by the audit committee of the Company (the "**Audit Committee**"), as follows:

		Three months ended 31 December		**Nine months ended 31 December**	
	Note	**2017 HK$'000 (Unaudited)**	2016 HK$'000 (Unaudited)	**2017 HK$'000 (Unaudited)**	2016 HK$'000 (Unaudited)
Revenue		**79,141**	97,830	**229,851**	252,531
Cost of sales	6	**(75,272)**	(81,419)	**(213,580)**	(213,605)
Gross profit		**3,869**	16,411	**16,271**	38,926
Other income	4	**3,849**	411	**5,066**	1,645
Other gains	5	**507**	31	**304**	332
Selling and distribution expenses	6	**(1,007)**	(1,384)	**(2,854)**	(3,361)
Administrative expenses	6	**(7,613)**	(9,724)	**(26,126)**	(29,277)
Finance costs	7	**(307)**	(316)	**(725)**	(689)
(Loss)Profit before income tax		**(702)**	5,429	**(8,064)**	7,576
Income tax expense	8	**(231)**	(1,121)	**(361)**	(1,564)
(Loss)Profit for the period attributable to the owners of the Company		**(933)**	4,308	**(8,425)**	6,012
(Loss) Earnings per share attributable to owners of the Company for the period — Basic and diluted (expressed in HK cents per share)	9	**(0.02)**	0.11	**(0.22)**	0.16
Dividends	10	**—**	—	**—**	—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 31 December 2017

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss) Profit for the period	**(933)**	4,308	**(8,425)**	6,012
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	**(531)**	610	**2,064**	(218)
Other comprehensive income for the period, net of tax	**(531)**	610	**2,064**	(218)
Total comprehensive income for the period attributable to owners of the Company	**(1,464)**	4,918	**(6,361)**	5,794

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended 31 December 2017

	Attributable to owners of the Company							
	Share Capital HK$'000	Share Premium HK$'000	Capital Reserve HK$'000	PRC Statutory Reserve HK$'000	Exchange Reserve HK$'000	Perpetual Capital Securities HK$'000	(Accumulated losses) HK$'000	Total Equity HK$'000
Balance at 1 April 2017 (Audited)	**4,800**	**75,468**	**(5,826)**	**4,472**	**1,303**	**–**	**(8,573)**	**71,644**
(Loss) Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(8,425)**	**(8,425)**
Other comprehensive income								
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**2,064**	**–**	**–**	**2,064**
Total comprehensive (loss)/income	**–**	**–**	**–**	**–**	**2,064**	**–**	**–**	**2,064**
Issue of perpetual capital securities *(note 12)*	**–**	**–**	**–**	**–**	**–**	**62,300**	**–**	**62,300**
Transaction costs on issue of perpetual capital securities *(note 12)*	**–**	**–**	**–**	**–**	**–**	**(10,638)**	**–**	**(10,638)**
Distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**(49,840)**	**–**	**(49,840)**
Balance at 31 December 2017 (Unaudited)	**4,800**	**75,468**	**(5,826)**	**4,472**	**3,367**	**1,822**	**(16,998)**	**67,105**

	Attributable to owners of the Company						
	Share Capital HK$'000	Share Premium HK$'000	Capital Reserve HK$'000	PRC Statutory Reserve HK$'000	Exchange Reserve HK$'000	(Accumulated losses)/ Retained earnings HK$'000	Total Equity HK$'000
Balance at 1 April 2016 (Audited)	4,800	75,468	(5,826)	3,971	3,986	(12,355)	70,044
Profit for the period	–	–	–	–	–	6,012	6,012
Other comprehensive income							
Currency translation differences	–	–	–	(272)	(2,119)	(218)	(2,609)
Total comprehensive (loss)/income	–	–	–	(272)	(2,119)	(218)	(2,609)
Balance at 31 December 2016 (Unaudited)	4,800	75,468	(5,826)	3,699	1,867	(6,561)	73,447

1 CORPORATION INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

(a) General information

The Company was incorporated in the Cayman Islands on 30 June 2014 as an exempted company with limited liability under Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised), of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is Shop Space No 66, Ground Floor, Blocks 7–14 City Garden, No. 233 Electric Road, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in designing, trading and manufacturing of two-way radios, baby monitors and other communication devices and servicing business of the above products.

The Company was listed on the GEM on 30 September 2015.

This unaudited condensed consolidated financial information is presented in thousands of Hong Kong dollars ("**HK$'000**"), unless otherwise stated.

(b) Basis of presentation

The presentation applied are consistent with those of the consolidated annual financial statements for the year ended 31 March 2017, as described in those consolidated annual financial statements.

2 BASIC OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

This unaudited condensed consolidated third quarterly financial information for the nine months ended 31 December 2017 has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by HKICPA.

The unaudited condensed consolidated third quarterly financial information should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2017, preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2 BASIC OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 April 2017. The adoption of the standards have no material effect on the Group's results and financial position:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 cycle
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

2 BASIC OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to existing standards and annual improvements that have been issued but not yet effective and have not been early adopted by the Group

The following new standards, amendments to existing standards and annual improvements have been published but are not yet effective for the nine months ended 31 December 2017 and which the Group has not early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers	1 January 2018

2 BASIC OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy and disclosures (Continued)

(b) New standards, amendments to existing standards and annual improvements that have been issued but not yet effective and have not been early adopted by the Group *(Continued)*

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Effective for annual periods beginning on or after a date to be determined
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK(IFRIC)-Int 23	Uncertainty over income tax treatments	1 January 2019
Amendments to HKFRSs	Annual improvements to HKFRSs 2014–2016 cycle	1 January 2018

The Group is in the process of making an assessment of what the impact of these new standards and amendments to existing standards would be in the period of initial application, but not yet in a position to state whether they would have a significant impact to the Group's results and financial position.

3 SEGMENT INFORMATION

Total revenue recognised during the respective period are as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sales of goods	**77,439**	97,809	**221,591**	252,467
Sales of service	**1,702**	21	**8,260**	64
	79,141	97,830	**229,851**	252,531

The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that in the condensed consolidated income statements.

The Group is principally engaged in the trading and manufacturing of two-way radios, baby monitors and other communication devices and servicing business of the above products.

The executive directors have been identified as the chief operating decision makers. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a product perspective whereby management assesses the performance of two-way radios, baby monitors, and other communication devices and servicing business based on gross profit arising in the course of the ordinary activities which are recurring in nature.

Capital expenditure comprises additions to property, plant and equipment.

3 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the executive directors for the reportable segments for the nine months ended 31 December 2017 and 31 December 2016 is as follows:

	Two-way radios HK$'000	Baby monitors HK$'000	Service business HK$'000	Other products (Note i) HK$'000	Total HK$'000
For the nine months ended 31 December 2017 (Unaudited)					
Total segment revenue (from external customers)	**176,039**	**18,704**	**8,260**	**26,848**	**229,851**
Segment results for the period	**13,386**	**842**	**1,372**	**671**	**16,271**
Other segment items:					
Amortisation of intangible assets	**505**	**1,514**	**—**	**—**	**2,019**
Depreciation of property, plant and equipment	**1,663**	**40**	**50**	**334**	**2,087**
Capital expenditures	**2,047**	**270**	**111**	**374**	**2,802**
For the nine months ended 31 December 2016 (Unaudited)					
Total segment revenue (from external customers)	215,246	24,596	64	12,625	252,531
Segment results for the period	33,529	3,432	(7)	1,972	38,926
Other segment items:					
Amortisation of intangible assets	481	1,442	—	—	1,923
Depreciation of property, plant and equipment	2,256	152	—	66	2,474
Capital expenditures	2,619	176	—	76	2,871

Note (i): Other products include DECT (Digital Enhanced Cordless Telecommunications) phones, transistors, integrated circuits, plastic casings, rechargeable battery chargers, ultrasonic cleansers, inductive emergency flashlights and accessories such as headsets, belt clips, chargers and power adaptors, etc.

3 SEGMENT INFORMATION (CONTINUED)

A reconciliation of total segment result to the (loss)/profit for the respective period is provided as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Segment results	**3,869**	16,411	**16,271**	38,926
Other income	**3,849**	411	**5,066**	1,645
Other gains	**507**	31	**304**	332
Selling, distribution and administrative expenses	**(8,620)**	(11,108)	**(28,980)**	(32,638)
Finance costs	**(307)**	(316)	**(725)**	(689)
(Loss)/Profit before income tax	**(702)**	5,429	**(8,064)**	7,576

An analysis of revenue by geographic location, based on shipping destination, is set out below:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The United States of America	**32,747**	27,884	**93,612**	92,094
Europe *(Note 1)*	**7,068**	11,703	**21,941**	25,847
The Netherlands	**4,251**	9,126	**18,584**	21,762
Asia *(Note 2)*	**9,563**	22,825	**31,936**	41,738
The United Kingdom (the "**UK**")	**5,985**	6,330	**13,130**	21,297
Germany	**18,214**	19,031	**37,435**	44,113
Others *(Note 3)*	**1,313**	931	**13,213**	5,680
	79,141	97,830	**229,851**	252,531

3 SEGMENT INFORMATION (CONTINUED)

Note 1: Europe includes but is not limited to France, Italy and Belgium but excludes UK, Germany and the Netherlands.

Note 2: Asia includes but is not limited to the People's Republic of China (the "**PRC**") and Hong Kong.

Note 3: Others include but is not limited to Brazil, Canada and Russia.

Revenue is allocated based on the shipping destination.

Non-current assets are located in the PRC and Hong Kong.

4 OTHER INCOME

	Three months ended 31 December		**Nine months ended 31 December**	
	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	**2017 HK$'000 (Unaudited)**	2016 HK$'000 (Unaudited)
Bank interest income	**18**	26	**50**	78
Interest income from financial asset at fair value through profit or loss	**186**	91	**276**	270
Interest income charged to customers	**–**	–	**22**	244
Staff quarter rental income	**17**	72	**56**	78
Machinery rental income	**197**	72	**503**	149
Sales of material	**2,130**	31	**2,385**	106
Gain on disposal of non-current asset	**1**	–	**247**	269
Others	**1,300**	119	**1,527**	451
	3,849	411	**5,066**	1,645

5 OTHER GAINS

	Three months ended 31 December		Nine months ended 31 December	
	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	**2017 HK$'000 (Unaudited)**	2016 HK$'000 (Unaudited)
Exchange gains, net	**625**	89	**479**	503
Fair value losses on financial asset at fair value through profit or loss	**(118)**	(58)	**(175)**	(171)
	507	31	**304**	332

6 LOSS FOR THE PERIOD ATTRIBUTABLE OF THE OWNERS OF THE COMPANY

(Loss)Profit for the period is arrived at after charging/(crediting):

	Three months ended 31 December		Nine months ended 31 December	
	2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)	**2017 HK$'000 (Unaudited)**	2016 HK$'000 (Unaudited)
Cost of inventories recognised as expenses	**48,985**	50,029	**136,932**	121,634
Employee benefit expenses	**9,764**	13,922	**35,127**	46,033
Subcontracting fees	**12,945**	16,859	**38,267**	46,719
Amortisation of intangible assets	**664**	500	**2,019**	1,923
Depreciation of property, plant and equipment	**837**	964	**2,656**	3,046
Operating leases				
— Office premises	**335**	417	**1,188**	1,294
— Factories	**494**	422	**1,448**	1,987
— Plant and machinery	**197**	160	**638**	478

7 FINANCE COSTS

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest on:				
— bank and other borrowings	**307**	316	**718**	689
— amount due to a related company	**–**	–	**7**	–
	307	316	**725**	689

8 INCOME TAX EXPENSE

No provision for Hong Kong profit tax (2016: 16.5%) is required as the Group did not generate any assessable profit for the nine months ended 31 December 2017. The PRC enterprise income tax is provided at the rate of 25% (2016: 25%) during the nine months ended 31 December 2017.

The amount of income tax expense charged to the condensed consolidated income statements represents:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current income tax expense	**231**	1,121	**361**	1,564

9 (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE PERIOD — BASIC AND DILUTED

(a) Basic

Basic (losses) earnings per share is calculated by dividing the loss (profit) for the period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Three months ended 31 December		Nine months ended 31 December	
	2017 (Unaudited)	2016 (Unaudited)	**2017 (Unaudited)**	2016 (Unaudited)
(Loss)/profit attributable to owners of the Company *(HK$'000)*	**(933)**	4,308	**(8,425)**	6,012
Weighted number of ordinary shares in issue *('000)*	**3,840,000**	3,840,000	**3,840,000**	3,840,000
Basic (loss)/earnings per share *(HK cents per share)*	**(0.02)**	0.11	**(0.22)**	0.16

(b) Diluted

Diluted (loss) earnings per share is the same as basic (loss) earnings per share due to the absence of dilutive potential ordinary shares during the respective periods.

With effective from 15 December 2016, each of the existing issued and non issued ordinary share of par value of HK$0.01 each in the share capital of the Company was subdivided into eight subdivided ordinary shares of HK$0.00125 each. The calculation of the basic and diluted earnings (loss) per share for the respective periods have been adjusted as a result of the share subdivision.

10 DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the nine months ended 31 December 2017 and 2016.

11 RELATED-PARTY TRANSACTIONS

For the purposes of these unaudited condensed consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the nine months ended 31 December 2017 and 31 December 2016.

(a) Transactions with related parties

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Rental expenses charged by a related company	**426**	264	**1,245**	852
Interest expenses paid	**–**	–	**7**	–

Note:

Rental expenses charged and interest expenses paid was paid to Xinxing On Time Electronics Limited ("**Xingxing On Time**"). Mr. Tam, the director of the Group, has direct interest in Xinxing On Time.

11 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Key management compensation

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is disclosed as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Wages, salaries and allowances	**895**	1,183	**3,544**	3,270
Retirement benefit costs	**13**	20	**48**	38
	908	1,203	**3,592**	3,308

12. PERPETUAL CAPITAL SECURITIES

During the period for the nine months ended 31 December 2017, the Company issued a total of HK$62.3 million perpetual capital securities (the "**Securities**"). The Securities are perpetual, non-callable and entitle the holders to receive distributions at distribution rate 14% per annum in the first 8 years, thereafter at distribution rate 0.001% per annum, payable annually in arrears. The distributions are at the Company's discretion, if the Company does not (a) pay dividends to the shareholders of the Company within 6 months period prior to the scheduled distribution date or (b) cancel or reduce their share capitals within 6 months period prior to the scheduled distribution date. During the period for the nine months ended 31 December 2017, the Company has accepted one-off early distributions at a discounted distribution rate amounting to HK$49.84 million of the Securities. As the Securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

13. EVENT AFTER REPORT PERIOD

As of the approval date of these unaudited condensed consolidated financial statements, the Group had no significant event after the reporting period which need to be disclosed.