



Echo International Holdings Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8218

2019

Interim Report



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*This report, for which the directors (the “**Directors**”) of Echo International Holdings Group 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, 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.*

FINANCIAL HIGHLIGHTS

- Recorded an unaudited revenue of approximately HK\$27.33 million for the six months ended 30 September 2019, representing an decrease of approximately 1.52% over the same period of the previous year.
- Recorded an unaudited loss attributable to the owners of the Company of approximately HK\$14.35 million for the six months ended 30 September 2019 (2018: unaudited loss attributable to the owners of the Company approximately HK\$7.30 million).
- Basic and diluted loss per share for the six months ended 30 September 2019 were HK1.41 cents (2018: basic loss per share HK0.76 cents).
- The Board does not recommend the payment of interim dividend for the six months ended 30 September 2019 (2018: Nil).

UNAUDITED INTERIM RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the three months and six months ended 30 September 2019 (the "Period") and the comparative unaudited figures for the corresponding period in 2018, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2019

| | Notes | Unaudited three months ended 30 September | | Unaudited six months ended 30 September | |
|---|-------|---|------------------|---|------------------|
| | | 2019 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 | 2018 HK\$'000 |
| Revenue | 3 | 14,316 | 12,972 | 27,330 | 27,751 |
| Cost of sales | | (11,982) | (6,305) | (21,920) | (16,093) |
| Gross profit | | 2,334 | 6,667 | 5,410 | 11,658 |
| Other gains or loss | 4 | 328 | 293 | 607 | 622 |
| Selling and distribution expenses | | (317) | (326) | (516) | (569) |
| Administrative and other expenses | | (6,771) | (9,302) | (11,997) | (17,163) |
| Change in fair value of derivative financial assets component of convertible bonds | | (5,132) | (1,145) | (5,132) | (1,145) |
| Finance costs | | (2,318) | (545) | (2,811) | (742) |
| Share of result of associates | | (149) | – | 4 | – |
| Loss before taxation | 5 | (12,025) | (4,358) | (14,435) | (7,339) |
| Taxation | 6 | 84 | 41 | 84 | 41 |
| Loss for the period | | (11,941) | (4,317) | (14,351) | (7,298) |
| Other comprehensive loss for the period, net of tax: Items that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations | | 1,040 | (3,137) | 9 | (3,168) |
| Total comprehensive loss for the period | | (10,901) | (7,454) | (14,342) | (10,466) |

| | | Unaudited three months ended 30 September | | Unaudited six months ended 30 September | |
|---|-------|---|---------------------|---|---------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| | Notes | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loss for the period attributable to owners of the Company | | <u>(11,941)</u> | <u>(4,317)</u> | <u>(14,351)</u> | <u>(7,298)</u> |
| Total comprehensive loss for the period attributable to owners of the Company | | <u>(10,901)</u> | <u>(7,454)</u> | <u>(14,342)</u> | <u>(10,466)</u> |
| Loss per share | | | | | |
| — Basic and diluted (<i>HK cents</i>) | 8 | <u>(1.17) cents</u> | <u>(0.45) cents</u> | <u>(1.41) cents</u> | <u>(0.76) cents</u> |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

| | Notes | Unaudited 30 September 2019 HK\$'000 | Audited 31 March 2019 HK\$'000 |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 2,882 | 4,817 |
| Interests in associates | | 20,925 | 20,921 |
| Right-of-use assets | | 7,573 | – |
| Deferred tax asset | | 10 | 18 |
| | | <u>31,390</u> | <u>25,756</u> |
| Current assets | | | |
| Inventories | | 12,633 | 12,625 |
| Trade receivables | 10 | 6,096 | 4,616 |
| Amount due from a related company | | 58 | 98 |
| Deposits, prepayments and other receivables | | 4,138 | 3,891 |
| Financial assets at fair value through profit or loss | | 5,380 | 8,201 |
| Pledged time deposits | | 2,055 | 2,039 |
| Cash and bank balances | | 9,259 | 8,310 |
| | | <u>39,619</u> | <u>39,780</u> |
| Current liabilities | | | |
| Trade payables | 11 | 2,306 | 2,293 |
| Accruals and other payables | | 1,654 | 2,158 |
| Lease liabilities | | 3,151 | – |
| Contract liabilities | | 353 | 654 |
| Tax payable | | 208 | 212 |
| Bank borrowing | | 148 | 146 |
| Obligations under finance lease | | 124 | 121 |
| | | <u>7,944</u> | <u>5,584</u> |
| Net current assets | | <u>31,675</u> | <u>34,196</u> |
| Total assets less current liabilities | | <u>63,065</u> | <u>59,952</u> |

| | | Unaudited | Audited |
|---------------------------------|-------|----------------------|---------------|
| | | 30 September | 31 March |
| | | 2019 | 2019 |
| | Notes | HK\$'000 | HK\$'000 |
| Non-current liabilities | | | |
| Lease liabilities | | 4,730 | – |
| Bank borrowing | | 327 | 402 |
| Obligations under finance lease | | 197 | 259 |
| Convertible bonds | | 25,950 | 17,411 |
| Deferred tax liabilities | | 1,215 | 922 |
| | | <u>32,419</u> | <u>18,994</u> |
| Net assets | | <u>30,646</u> | <u>40,958</u> |
| Capital and reserves | | | |
| Share capital | 12 | 2,550 | 2,550 |
| Reserves | | 28,096 | 38,408 |
| | | <u>30,646</u> | <u>40,958</u> |
| Total equity | | <u>30,646</u> | <u>40,958</u> |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019 (Unaudited)

| | Share capital | Share premium | Contribution reserve | Capital reserve | Share option reserve | Exchange reserve | Convertible bonds — equity component reserve | Accumulated losses | Total |
|--|---------------|---------------|----------------------|-----------------|----------------------|------------------|--|--------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2019, audited | 2,550 | 59,326 | 4,836 | (89) | 5,794 | (2,469) | 7,460 | (36,450) | 40,958 |
| Total comprehensive income/(loss) for the period | - | - | - | - | - | 9 | - | (14,351) | (14,342) |
| Issuance of convertible bonds | - | - | - | - | - | - | 4,489 | - | 4,489 |
| Issuance cost on convertible bonds | - | - | - | - | - | - | (74) | - | (74) |
| Deferred tax liability arising from issue of convertible bonds | - | - | - | - | - | - | (385) | - | (385) |
| At 30 September 2019, unaudited | <u>2,550</u> | <u>59,326</u> | <u>4,836</u> | <u>(89)</u> | <u>5,794</u> | <u>(2,460)</u> | <u>11,490</u> | <u>(50,801)</u> | <u>30,646</u> |

For the six months ended 30 September 2018 (Unaudited)

| | Share capital HK\$'000 | Share premium HK\$'000 | Contribution reserve HK\$'000 | Capital reserve HK\$'000 | Share option reserve HK\$'000 | Exchange reserve HK\$'000 | Convertible bonds — equity component reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------|-------------------------------------|--------------------------------|--|---------------------------------|--|-----------------------------------|-------------------|
| At 1 April 2018, audited | 2,400 | 53,476 | 4,836 | (89) | 5,794 | (217) | 3,713 | (41,698) | 28,215 |
| Total comprehensive loss for the period | - | - | - | - | - | (3,168) | - | (7,298) | (10,466) |
| Issuance of convertible bonds | - | - | - | - | - | - | 4,518 | - | 4,518 |
| Issuance cost on convertible bonds | - | - | - | - | - | - | (127) | - | (127) |
| Deferred tax liability arising from issue of convertible bonds | - | - | - | - | - | - | (644) | - | (644) |
| At 30 September 2018, unaudited | <u>2,400</u> | <u>53,476</u> | <u>4,836</u> | <u>(89)</u> | <u>5,794</u> | <u>(3,385)</u> | <u>7,460</u> | <u>(48,996)</u> | <u>21,496</u> |

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

| | Unaudited six months ended 30 September | |
|--|---|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Net cash used in operating activities | (7,828) | (4,239) |
| Net cash used in investing activities | (88) | (2,460) |
| Net cash generated from financing activities | 6,652 | 12,424 |
| | <hr/> | <hr/> |
| Net (decrease)/increase in cash and cash equivalents | (1,264) | 5,725 |
| Effect of foreign currency exchange rate changes | 2,213 | (3,883) |
| Cash and cash equivalents at beginning of period, audited | 8,310 | 13,340 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of period, unaudited | 9,259 | 15,182 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | 9,259 | 15,267 |
| Bank overdraft | - | (85) |
| | <hr/> | <hr/> |
| | 9,259 | 15,182 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company is incorporated in the Cayman Islands as an exempted company with limited liability. The Company's shares have been listed on GEM of the Stock Exchange since 11 October 2013.

The unaudited condensed consolidated financial statements are presented in Hong Kong Dollars ("**HK\$**"), which is same as the functional currency of the Company. All values are rounded to the nearest thousands (HK\$'000) except when otherwise indicated.

The principal activities of the Group are engaged in the manufacturing and trading of electronic products and accessories. The Group also operates catering business in Hong Kong.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standards ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements set out in Chapter 18 of the Rule Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated financial statements have been prepared under historical cost basis except for certain financial assets and financial liabilities, which are measured at fair values. The accounting policies and method of computation used in preparing the unaudited condensed consolidated results are consistent with those used in the audited financial statements for the year ended 31 March 2019 except in relation to the new and revised standards, amendments and interpretations ("**new and revised HKFRSs**") issued by the HKICPA that are adopted for the first time for the current period's financial statements. The adoption of these new and revised HKFRSs has had no material impact on the unaudited condensed consolidated financial statements. The unaudited condensed consolidated interim results have not been reviewed by the Company's auditors, but have been reviewed by the Company's audit committee.

The Group has not early adopted any new Hong Kong Financial Reporting Standards ("**HKFRS**") that have been issued but are not yet effective.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

HKFRS 16 Leases (“HKFRS 16”)

The Group has adopted HKFRS 16 “Leases” from 1 April 2019, which resulted in changes in accounting policies and adjustments to the amounts recognised in the First Quarterly Condensed Financial Statements. In accordance with the transition provisions in HKFRS 16, the Group has recognised the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 April 2019). As a result, the financial information presented for 2018 has not been restated.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the condensed consolidated statement of profit or loss and other comprehensive income over the lease period on a straightline basis.

On adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance costs will be charged to the condensed consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

Impacts for the period

In relation to those leases under HKFRS 16, the Group has recognised depreciation and interest expense, instead of operating lease expense. During the six months ended 30 September 2019, the Group recognised HK\$1,849,742 and HK\$418,785 of depreciation expense on right-of-use assets and interest expense on lease liabilities respectively.

3 SEGMENT INFORMATION

Information reported internally to the Directors of the Group (chief operating decision maker) for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

An analysis of the Group's revenue of each significant category for the Period is as follows:

| | Unaudited six months ended 30 September | |
|------------------------------------|---|---------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Sales of electronic products | 17,483 | 23,424 |
| Revenue from restaurant operations | 9,847 | 4,327 |
| | <u>27,330</u> | <u>27,751</u> |

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

- indent trading of electronic products.
- manufacturing and trading of electronic products and accessories.
- provision of food catering services.

The Group's reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

Segment revenues reported below represent revenue generated from external customers. There were no inter-segment sales for both period.

Segment result represents the profit/(loss) generated by each segment without allocation of corporate income and central administration costs including directors' emoluments, share based payment, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

3 SEGMENT INFORMATION (CONTINUED)

Segment revenues and results

The following is an analysis of the Group's turnover and results from continuing operations by reportable and operating segments:

For the six months ended 30 September 2019 (Unaudited)

| | Indent trading of electronic products HK\$'000 | Manufacturing and trading of electronic products and accessories HK\$'000 | Provision of food catering services HK\$'000 | Total HK\$'000 |
|---|---|--|---|-------------------|
| Revenue | 1,280 | 16,203 | 9,847 | 27,330 |
| Segment results | 761 | (2,597) | 5,937 | 4,101 |
| Unallocated other revenue and gains | | | | 495 |
| Unallocated selling and distribution expenses | | | | (298) |
| Unallocated administrative and other expenses | | | | (10,553) |
| Loss from operations | | | | (6,255) |
| Finance costs | | | | (2,811) |
| Allowance for expected credit loss recognised in respect of trade receivables and amount due from a related company | | | | (241) |
| Change in fair value of derivative financial assets component of convertible bonds | | | | (5,132) |
| Share of result of associates | | | | 4 |
| Loss before taxation | | | | (14,435) |
| Taxation | | | | 84 |
| Loss for the period | | | | (14,351) |

3 SEGMENT INFORMATION (CONTINUED)

For the six months ended 30 September 2018 (Unaudited)

| | Indent trading of electronic products HK\$'000 | Manufacturing and trading of electronic products and accessories HK\$'000 | Provision of food catering services HK\$'000 | Total HK\$'000 |
|---|---|--|---|-------------------|
| Revenue | 1,500 | 21,924 | 4,327 | 27,751 |
| Segment results | 256 | 788 | (3,195) | (2,151) |
| Unallocated other revenue and gains | | | | (598) |
| Unallocated selling and distribution expenses | | | | (268) |
| Unallocated administrative and other expenses | | | | (3,580) |
| Loss from operations | | | | (6,597) |
| Finance costs | | | | (742) |
| Loss before taxation | | | | (7,339) |
| Taxation | | | | 41 |
| Loss for the period | | | | (7,298) |

Geographical information

| | Revenue from external customers Unaudited six months ended 30 September | |
|--|--|----------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 10,578 | 6,070 |
| Asian countries, other than Hong Kong (Note 1) | 2,198 | 3,282 |
| European countries (Note 2) | 9,744 | 13,679 |
| North and South American countries (Note 3) | 3,666 | 4,252 |
| Others | 1,144 | 468 |
| | 27,330 | 27,751 |

3 SEGMENT INFORMATION (CONTINUED)

Geographical information ((Continued))

Notes:

1. Asian countries include the People's Republic of China ("PRC"), Korea, Malaysia, Singapore and Taiwan.
2. European countries include Belgium, Bulgaria, Denmark, Finland, Germany, Italy, Poland, Portugal, Russia, Slovakia, Spain, Sweden, Switzerland and United Kingdom.
3. North and South American countries include Argentina, Brasil, Canada and the United States.

The Group's geographical segments are also classified by the location of assets, information about its non-current assets by geographical location are detailed below:

| | Unaudited 30 September 2019 HK\$'000 | Audited 31 March 2019 HK\$'000 |
|------------------------------------|---|---|
| Hong Kong | 2,868 | 4,712 |
| People's Republic of China ("PRC") | 14 | 105 |
| | <u>2,882</u> | <u>4,817</u> |

4 OTHER GAINS OR LOSS

| | Unaudited six months ended 30 September 2019 HK\$'000 | 2018 HK\$'000 |
|---|--|------------------|
| Bank interest income | 21 | 14 |
| Sundry income | 534 | 608 |
| Reversal for expected credit loss/impairment loss recognised in respect of trade receivables | 52 | – |
| | <u>607</u> | <u>622</u> |

5 LOSS BEFORE TAXATION

Unaudited
six months ended
30 September
2019 2018
HK\$'000 HK\$'000

Loss before taxation is arrived after charging:

Finance costs

Interest on:

| | | |
|--|--------------------|-----------|
| Bank overdrafts wholly repayable within five years | 1 | – |
| Interest expense on lease liabilities | 419 | – |
| Obligation under finance leases | 17 | 34 |
| Convertible bonds wholly repayable within five years | 2,374 | 708 |
| | <hr/> 2,811 | <hr/> 742 |

Other items

| | | |
|---|------------------------|---------------|
| Depreciation of property, plant and equipments | 285 | 585 |
| Depreciation of right-of-use assets | 1,850 | – |
| Costs of inventories sold | 15,693 | 14,330 |
| Loss on disposal of a subsidiary | 635 | – |
| Allowance for expected credit loss recognised in respect of amount due from a related company | 293 | – |
| | <hr/> 293 <hr/> | <hr/> – <hr/> |

6 TAXATION

Unaudited
six months ended
30 September
2019 2018
HK\$'000 HK\$'000

| | | |
|-------------------|-----------------------|----------------|
| Current tax | | |
| — Hong Kong | – | – |
| — PRC | – | – |
| Deferred taxation | 84 | 41 |
| | <hr/> 84 <hr/> | <hr/> 41 <hr/> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits arising in Hong Kong for the six months ended 30 September 2019 and 2018.

PRC subsidiary is subjected to PRC enterprise income tax at 25%.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands for the six months ended 30 September 2019 and 2018.

7 DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2019 (2018: Nil).

8 LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the Period attributable to owners of the Company and the weighted average number of the Company's ordinary shares in issue during the Period.

| | | Unaudited six months ended 30 September 2019 | 2018 |
|---|----------|---|--------------------|
| | Note | HK\$'000 | HK\$'000 |
| Loss for the period attributable to owners of the Company | | <u>(14,351)</u> | <u>(7,298)</u> |
| | | | |
| | | Unaudited six months ended 30 September 2019 | 2018 |
| | | No. of shares | No. of shares |
| Weighted average number of ordinary shares and dilutive potential ordinary share in issue during the period | (a), (b) | <u>1,020,000,000</u> | <u>960,000,000</u> |

Notes:

- (a) On 24 October 2018, the Company placed 60,000,000 new shares at the issue price of HK\$0.1 for the purpose of acquisition of associates with cash payment of HK\$200,000 for acquisition of associates.
- (b) The diluted loss per share is the same as the basic loss per share for the six months ended 30 September 2019 and 2018 because the Company's share options outstanding during those periods were either anti-dilutive or have no potential dilutive effects.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group acquired property, plant and equipment amounting to HK\$0.94 million (six months ended 30 September 2018: HK\$2.47 million) and disposed property, plant and equipment amounting to HK\$2.48 million for the six months ended 30 September 2019 was included in the disposed of subsidiary on 2 September 2019 (the corresponding period in 2018: Nil).

10 TRADE RECEIVABLES

Details of the ageing analysis are as follows:

| | Unaudited 30 September 2019 HK\$'000 | Audited 31 March 2019 HK\$'000 |
|----------------|---|---|
| 0 to 30 days | 5,288 | 2,783 |
| 31 to 60 days | 363 | 644 |
| 61 to 90 days | 96 | 24 |
| 91 to 180 days | 349 | 1,165 |
| | <u>6,096</u> | <u>4,616</u> |

The Company normally allows a credit period ranging from 0 to 90 days.

Trade receivables as at 30 September 2019 are denominated in HK\$ and USD.

11 TRADE PAYABLES

Details of the ageing analysis are as follows:

| | Unaudited 30 September 2019 HK\$'000 | Audited 31 March 2019 HK\$'000 |
|----------------|---|---|
| Within 30 days | 1,842 | 1,323 |
| 31 to 60 days | 251 | 190 |
| 61 to 90 days | 36 | 384 |
| 91 to 180 days | 155 | 207 |
| Over 180 days | 22 | 189 |
| | <u>2,306</u> | <u>2,293</u> |

The average credit period on purchase of certain goods is generally within 30 days to 90 days.

Trade payables as at 30 September 2019 are denominated in HK\$, USD and RMB.

12 SHARE CAPITAL

| | Ordinary shares of HKD0.0025 each Unaudited six months ended 30 September 2019 | | Ordinary shares of HKD0.0025 each Audited year ended 31 March 2019 | |
|--|--|------------------------------|--|------------------------------|
| | Number of shares '000 | Nominal value HK\$'000 | Number of shares '000 | Nominal value HK\$'000 |
| Authorised: | | | | |
| At beginning of the period/year | <u>4,000,000</u> | <u>10,000</u> | <u>4,000,000</u> | <u>10,000</u> |
| At end of the period/year | <u>4,000,000</u> | <u>10,000</u> | <u>4,000,000</u> | <u>10,000</u> |
| Issued and fully paid: | | | | |
| At beginning of the period/year | 1,020,000 | 2,550 | 960,000 | 2,400 |
| Issue of shares in relation to acquisition of associates (Note 8(a)) | <u>-</u> | <u>-</u> | <u>60,000</u> | <u>150</u> |
| At end of the period/year | <u>1,020,000</u> | <u>2,550</u> | <u>1,020,000</u> | <u>2,550</u> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

13 FINANCIAL INSTRUMENTS

Fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

- (i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- (ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 March 2019 and 30 September 2019.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

14 CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2019 and 31 March 2019.

15 RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the interim consolidated financial statements, the Company had the following material transactions with related parties during the period:

(a) Significant related party transactions

During the period, the Group entered into the following transactions with related parties:

| | Unaudited six months ended 30 September | |
|---|---|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Nature of related party transactions | | |
| Rental paid to Mobile Computer Land Limited (Note 2) | 287 | 287 |
| Sales to Mobile Computer Land Limited (Note 2) | 52 | 239 |
| Consultancy fee paid to Vashion Assets Management Limited (Note 1) | 300 | 600 |
| | <u>639</u> | <u>926</u> |

Note 1: Ms. Zhou Jia Lin is a director of Vashion Assets Management Limited. Ms. Zhou Jia Lin was appointed as non-executive director on 22 October 2014. Ms. Zhou resigned on 7 September 2018.

Note 2: Its major shareholder is Mr. Lo Ding Kwong, who is the son of Ms. Cheng Yeuk Hung.

(b) Key management personnel compensation

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employees is as follows:

| | Unaudited six months ended 30 September | |
|---------------------------------|---|------------------|
| | 2019 HK\$'000 | 2018 HK\$'000 |
| Salaries and allowances | 1,648 | 1,635 |
| Retirement scheme contributions | 27 | 35 |
| | <u>1,675</u> | <u>1,670</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Revenue for the six months ended 30 September 2019 (“**Six-Month Period**”) was approximately HK\$27.33 million, representing an decrease of approximately 1.52% when compared with the same period last year. Loss attributable to owners of the Company for the Six-Month Period was approximately HK\$14.35 million whilst for the same period last year, the loss attributable to owners of the Company was approximately HK\$7.30 million.

Given the slow pace of economic recovery along with the continued slackness in the U.S. and European markets, the sales of electronic products have become increasingly challenging. Notwithstanding the challenging market conditions encountered during the Six-Month Period under review, the Group continues to provide electronics products and the subcontracting services on PCB assemblies and manufacture of electronic products to customers in its principal markets, i.e. the U.S.A. and the European countries including Belgium, Bulgaria, Denmark, Finland, Germany, Italy, Poland, Russia, Slovakia, Spain, Sweden, Switzerland and United Kingdom.

In view of the challenging market conditions as mentioned above, while the Group will continue to focus on its core business of the sales of electronic products, it will explore new business opportunities to broaden its source of income and maximize profit and return for the Group and the shareholders of the Company. The Group will also increase its market share and attract new customers to enlarge its client base through conducting more promotional and marketing activities and designing and developing new electronic products.

Sales of Electronic Products

Revenue from this segment during the Six-Month Period was approximately HK\$17.48 million, representing a decrease of approximately 25.37% when compared with the same period last year. Decrease in sales of electronics products was mainly due to the decrease in the revenue from indent trading of electronic products and manufacturing and trading of electronic products and accessories by approximately HK\$0.22 million and HK\$5.72 million respectively as compared with the corresponding period in 2018. The decrease in the revenue from indent trading of electronic products is mainly attributable to the decreasing purchase orders from the Group’s customers. The decrease in the revenue from manufacturing and trading of electronic products and accessories for the Six-Month Period was mainly due to the decrease in sales of charger board and fishing indicator for the Six-Month Period by approximately HK\$2.49 million and HK\$3.15 million respectively as compared with the corresponding period in 2018. Decrease in charger board and fishing indicator were caused by the decrease in volume sold.

Financial review

The Group's revenue for the six months ended 30 September 2019 was approximately HK\$27.33 million, representing an decrease of approximately 1.52% from approximately HK\$27.75 million of the same period in 2018. Such decrease was mainly due to the decrease in sales of electronic products and accessories by approximately HK\$5.94 million.

The overall gross profit margin of the Group decreased from approximately 42.01% for the six months ended 30 September 2018 to 19.80% for the six months ended 30 September 2019. The decrease in the Group's gross profit margin for the six months ended 30 September 2019 was primarily due to the decrease in sales of electronic products.

Selling and distribution expenses for the six months ended 30 September 2019 were approximately HK\$0.52 million (approximately HK\$0.57 million for the six months ended 30 September 2018), representing a decrease of approximately 9.31%. Such decrease was mainly due to the advertising and promotion amounting to HK\$0.02 million for the six months ended 30 September 2019 (approximately HK\$0.07 million for the six months ended 30 September 2018).

Administrative and other expenses for the six months ended 30 September 2019 were approximately HK\$12.00 million (approximately HK\$17.16 million for the six months ended 30 September 2018), representing a decrease of approximately 30.10%. Such decrease was mainly due to the decrease in staff costs and rental expenses amounting to HK\$5.40 million and HK\$0.63 million respectively for the six months ended 30 September 2019 (approximately HK\$8.48 million and HK\$2.54 million respectively for the six months ended 30 September 2018).

Loss attributable to the owners of the Company amounted to approximately HK\$14.35 million for the six months ended 30 September 2019 (approximately HK\$7.30 million for the six months ended 30 September 2018). Loss per share attributable to owners of the Company was approximately HK1.41 cents for the six months ended 30 September 2019 (approximately HK0.76 cents for the six months ended 30 September 2018).

The cash and cash balance increased from approximately HK\$8.31 million as at 31 March 2019 to HK\$9.26 million as at 30 September 2019 mainly due to the net effect of the HK\$9.41 million convertible bonds being successfully placed by the Company's placing agent at the initial conversion price per conversion share was HK\$0.049.

Disposal of a Subsidiary

On 19 August 2019, one of the subsidiaries of the Group as a vendor entered into an agreement with a purchaser to dispose of the entire issued share capital of Chiu Cuisine Limited for consideration of HK\$1.00 and the transaction was announced by the Company on the same date. The transaction was completed on 2 September 2019.

Business Prospect

On 8 August 2019, the Company as a purchaser entered into a non-legally binding memorandum of understanding with a vendor to acquire the entire equity interest in COMSYS (Tianjin) International Leasing Co., Ltd which was announced by the Company on the same date. As at 30 September 2019, the Company has not entered into a legally binding sale and purchase agreement with the vendor.

IPO PROCEEDS AND USE OF THE IPO PROCEEDS

The Company received IPO net proceeds of approximately HK\$25.12 million (the "IPO Proceeds").

The utilization of the IPO Proceeds since 12 May 2017 (date of the latest revision of allocation of the unutilised IPO Proceeds) to 30 September 2019 is summarised as follows:

| | As at 12 May 2017 Revised allocation of the unutilised IPO Proceeds HK\$ million (approximately) | Utilised during the period from 13 May 2017 to 30 September 2019 HK\$ million (approximately) | Unutilised amount as at 30 September 2019 HK\$ million (approximately) |
|---|---|---|--|
| Strengthening the Group's position in its established markets and expanding its customer base | 2.49 | 0.25 | 2.24 |
| Working capital and funding for other general corporate purposes | 1.30 | 1.30 | – |
| Total | <u>3.79</u> | <u>1.55</u> | <u>2.24</u> |

It is expected that the unutilised IPO Proceeds will be utilised within 2 years after the date of this report.

OTHER FUND RAISING ACTIVITIES DURING THE SIX-MONTH PERIOD

(1) Issue of HK\$9,408,000 convertible bonds under general mandate

On 11 July 2019, the Company entered into a placing agreement with a placing agent in relation to placing of up to HK\$9,408,000 convertible bonds to independent investors under general mandate for fund raising purpose. The initial conversion price of the convertible bonds was HK\$0.049 represented a premium of about 1.67% to the closing price of HK\$0.048 on 11 July 2019. On 6 August 2019, the Company completed the placing of HK\$9,408,000 convertible bonds. The convertible bonds are convertible into 192,000,000 Shares based on the initial conversion price. The gross proceeds and net proceeds from the placing amounted to about HK\$9.41 million and HK\$9.18 million respectively. The net proceeds are intended to be used in investment in catering business and as at the date of this report, funds of about HK\$3.20 million have been utilised for such purpose and funds of about HK\$5.98 million remain unutilised and is expected to be utilised in the coming twelve months.

SHARE OPTIONS SCHEMES

The Company has two share option schemes namely, the pre-IPO share option scheme (the “**Pre-IPO Share Option Scheme**”) and the share option scheme (the “**Share Option Scheme**”) which were both adopted on 27 September 2013.

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 27 September 2013 under which the Company has granted options to certain Directors of the Group to subscribe for an aggregate of 80,000,000 shares of the Company with an exercise price of HK\$0.15, which is equal to the placing price as defined in the prospectus of the Company.

As at 30 September 2019, details of the share options granted under the Pre-IPO Share Option Scheme are as follows:

| Directors | Outstanding as at 31 March 2019 | Exercised | Lapsed | Cancelled | Outstanding as at 30 September 2019 | Exercise period | Approximate percentage of issued capital of the Company upon exercise of all the options |
|---------------------|---------------------------------|-----------|----------|-----------|-------------------------------------|-----------------------------------|--|
| Mr. Lo Yan Yee | 22,800,000 | - | - | - | 22,800,000 | 11 October 2016 – 11 October 2023 | 2.19% |
| Ms. Cheng Yeuk Hung | 22,800,000 | - | - | - | 22,800,000 | 11 October 2016 – 11 October 2023 | 2.19% |
| | <u>45,600,000</u> | | | | <u>45,600,000</u> | | 4.38% |
| Employees | 34,400,000 | - | - | - | 34,400,000 | 11 October 2016 – 11 October 2023 | 3.31% |
| | <u>80,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>80,000,000</u> | | 7.69% |

Share Option Scheme

During the six months period ended 30 September 2019, no option was granted, exercised or lapsed under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2019, the interests and short positions of the Directors and the chief executive of the Company 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, Laws of Hong Kong) ("SFO")) which (i) are 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 and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) were recorded in the register required to be kept under Section 352 of the SFO, or (iii) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by Directors as referred to in Rule 5.46 of the GEM Listing Rules are as follows:

(i) Long positions in the Shares

| Name of Director | Company/ associated corporation | Capacity | Number of Shares | Approximate percentage of interest |
|---------------------|---------------------------------|--------------------|------------------|------------------------------------|
| Ms. Cheng Yeuk Hung | Company | Personal interest | 97,560,000 | 9.56% |
| Mr. Lo Yan Yee | Company | Interest of spouse | 97,560,000 | 9.56% |

Note: Mr. Lo Yan Yee is the executive Director and the spouse of Ms. Cheng Yeuk Hung, and is deemed under the SFO to be interested in those 97,560,000 shares in which Ms. Cheng Yeuk Hung is interested.

(ii) Long position in underlying shares of the Company

| Name | Capacity | Description of equity derivatives | Number of underlying shares |
|--|--------------------|--|------------------------------------|
| Mr. Lo Yan Yee (executive Director) | Personal | Options | 22,800,000 |
| | Interest of spouse | Options | 22,800,000 |
| | | | <hr/> 45,600,000 |
| Ms. Cheng Yeuk Hung (executive Director) | Personal | Options | 22,800,000 |
| | Interest of spouse | Options | 22,800,000 |
| | | | <hr/> 45,600,000 |
| Mr. Cheng Kwing Sang, Raymond (chief executive officer) | Personal | Options | 22,400,000 |

Save as disclosed above, as at 30 September 2019, none of the Directors or chief executive of the Company has any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

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

As at 30 September 2019, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO:

| Name | Capacity and nature of interest | Number of shares | Percentage of the Company's issued share capital | Long/Short position |
|--------------------------------------|---------------------------------|------------------|--|---------------------|
| Adamas Asset Management (HK) Limited | Investment Manager | 66,338,000 | 6.91% | Long position |

| Name | Capacity and nature of interest | Number of shares | Number of underlying shares | Total | Percentage of the Company's issued share capital |
|--|--|-------------------------|-----------------------------|-------------------------|--|
| Yeung Tong Seng Terry | Beneficiary of a trust (other than discretionary interest) | 101,200,000 (Note 2) | 73,584,905 (Notes 1 & 2) | | |
| | Beneficial owner | — | 31,036,237 (Note 1) | | |
| | | 101,200,000 | 104,621,142 (Note 1) | 205,821,142 | 20.18% |
| Bluemount investment Fund SPC — Bluemount investment Fund SP | Trustee (other than a bare trustee) | 101,200,000 | 73,584,905 (Note 1) | 174,784,905 (Note 2) | 17.14% |
| Siu Yik Tung Jamie | Beneficial owner | | 125,271,210 (Note 1) | 125,271,210 | 12.28% |

| Name | Capacity and nature of interest | Number of shares | Number of underlying shares | Total | Percentage of the Company's issued share capital |
|--------------------|--------------------------------------|------------------|-----------------------------|------------|--|
| Siu Wa Kei | Interest of a controlled corporation | 25,956,000 | | 25,956,000 | |
| | Beneficial owner | 43,119,472 | | 43,119,472 | |
| | | 69,075,472 | | 69,075,472 | 6.77% |
| Lissington Limited | | 44,096,000 | 10,374,662 (Note 1) | 54,470,662 | 5.34% |

Notes:

1. These underlying Shares are Shares to be issued to a hold or holders of the convertible bonds issued by the Company.
2. These shares were held by Bluemount investment Fund SPC — Bluemount investment Fund SP as trustee of Mr. Yeung Tong Seng Terry.

Save as disclosed above, as at 30 September 2019, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2019.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the standards set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry to all Directors, the Company was not aware of any non-compliance with the required standards of dealings and its code of conduct regarding securities transactions by Directors during the six months ended 30 September 2019.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions (the "**Code**") as set out in Appendix 15 of the GEM Listing Rules. The principles adopted by the Company emphasize a quality board, transparency and accountability to its shareholders. The Company has complied with the Code during the six months ended 30 September 2019.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed under the heading "Related Party Transactions" as set out in note 16 to the interim consolidated financial statements, no Director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the six months period ended 30 September 2019.

COMPETING BUSINESS

For the six months ended 30 September 2019, the Directors are not aware of any business or interest of the Directors, the controlling shareholder(s) 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.

AUDIT COMMITTEE

The Company has set up an audit committee (the "**Committee**") with written terms of reference in compliance with the GEM Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors of the Company, namely Mr. Lam Wai Yuen, Mr. Leung Yu Tung, Stanley and Mr. Tsui Chun Shing. The unaudited condensed consolidated results of the Group for the six months ended 30 September 2019 have been reviewed by the Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements, and adequate disclosures have been made.

By Order of the Board
Echo International Holdings Group Limited
Leung Kwok Kuen, Jacob
Executive Director

Hong Kong, 11 November 2019