



RUIXIN INTERNATIONAL HOLDINGS LIMITED
瑞鑫國際集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 724)

2017
Interim Report

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Zhaofeng (*Chairman*)
Mr. Lam Yat Keung
Mr. Huang Hanshui

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Chi Fai
Ms. Liu Yanfang
Mr. Zhang Jue

AUDIT COMMITTEE

Mr. Ho Chi Fai (*Chairman*)
Ms. Liu Yanfang
Mr. Zhang Jue

REMUNERATION COMMITTEE

Mr. Zhang Jue (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

NOMINATION COMMITTEE

Ms. Liu Yanfang (*Chairman*)
Mr. Wang Zhaofeng
Mr. Zhang Jue

INVESTMENT COMMITTEE

Mr. Zhang Jue (*Chairman*)
Mr. Ho Chi Fai
Ms. Liu Yanfang

COMPANY SECRETARY

Ms. Tsang Man Sze

REGISTERED OFFICE

Clarendon House
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Hamilton, HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services
(Bermuda) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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SHARE LISTING

The Stock Exchange of
Hong Kong Limited
Stock Code: 724

WEBSITE

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The board (the "Board") of directors (the "Director(s)") of Ruixin International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period and selected explanatory notes as set out below.

Results Overview

For the six months ended 30 June 2017 (the "Reporting Period"), the Group reported revenue of approximately HK\$246.8 million, representing an increase of approximately 10.2% as compared with approximately HK\$224.0 million for the six months ended 30 June 2016 (the "Corresponding Period").

Loss for the Reporting Period decreased to approximately HK\$28.6 million from approximately HK\$43.1 million for the Corresponding Period. The reduction in loss for the Reporting Period was mainly due to the recognition of tax expenses of approximately HK\$16.6 million in relation to the Hong Kong Inland Revenue Department enquiries of the Hong Kong Profits Tax of a subsidiary of the Company in respect of the years of assessment 2006/07 to 2014/15 (the "Tax Expenses") in the Corresponding Period but not in the Reporting Period. Excluding the Tax Expenses in the Corresponding Period, loss for the Reporting Period increased by approximately 7.9% mainly due to, among others, the increase in the operating loss for the electronic products business (as a result of, among others, the increase in cost of raw materials), the expenses incurred in exploring business opportunities in Vietnam and the increase in imputed interest expenses on convertible notes.

Other than the imputed interest expenses on convertible notes which arose as a result of accounting treatment under the provisions of the applicable accounting standards, the Group made a net loss of approximately HK\$21.5 million for the Reporting Period, as compared with a net loss of approximately HK\$37.0 million for the Corresponding Period.

Financial Highlights

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Revenue	246,754	223,963
Gross profit	11,743	13,062
Loss for the period	(28,597)	(43,113)
Imputed interest expenses on convertible notes	(7,088)	(6,069)
Net loss for the period before imputed interest expenses on convertible notes	(21,509)	(37,044)

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The electronic products business reported an increase of approximately 10.2% in revenue from approximately HK\$224.0 million for the Corresponding Period to approximately HK\$246.8 million for the Reporting Period. The gross profit for the electronic products business during the Reporting Period was approximately HK\$11.7 million, a decrease of approximately 10.7% when compared with the Corresponding Period. Although there were signs of pickup in revenue in the Reporting Period, the increase in raw material cost eroded the gross profit margin. Global shortage of raw materials for the semiconductors industry from upstream manufacturers affected the supply on one hand and the pickup in the electronic products industry further stimulated the demand for raw materials on the other hand. As a result, during the Reporting Period, the cost of sales increased by approximately 11.4%.

On 16 January 2017, the ordinary resolution of the special general meeting was duly passed and the maturity date of the outstanding convertible notes was extended to 31 January 2019. The Company is considering various alternatives to more permanently improve the Group's financial position. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017 as well as the circular of the Company dated 29 December 2016 and the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report"). Immediately following the modification of terms of convertible notes, as set out in note 13 to the condensed consolidated financial statements in this report, the estimated financial effect of the modification was an increase of approximately HK\$32.9 million in other reserve and a transfer of a net amount of approximately HK\$28.9 million between the convertible notes reserve and accumulated losses with no profit or loss impact during the Reporting Period. As disclosed in the 2016 Annual Report, during the Reporting Period, the winding-up of CITIC Logistics (International) Company Limited ("CLI") and certain of its subsidiaries was completed, according to the liquidators of CLI.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business and Financial Review *(Continued)*

As disclosed in the 2016 Annual Report, the Group is seeking and exploring business opportunities in Vietnam including infrastructure projects to improve the prospect of the Group. During the Reporting Period, the Company has set up an indirect wholly-owned subsidiary in Vietnam and is in a preliminary stage of studying a potential investment opportunity for the development of an expressway project in Vietnam (the "Potential Investment"). The Company wishes to highlight that no binding agreement in relation to the Potential Investment has been entered into as at the date of this report. For details, please refer to the announcements of the Company dated 12 January 2017 and 21 March 2017.

Liquidity, Financial Resources and Capital Structure

The Group mainly finances its business operations with internally generated cash flows and general banking facilities.

As at 30 June 2017, the Group had bank balances and cash of approximately HK\$55.4 million (31 December 2016: approximately HK\$64.4 million). The Group's current ratio (measured as total current assets to total current liabilities) was 4.2 times (31 December 2016: 1.0 time).

As at 30 June 2017, the Company had outstanding zero coupon convertible notes due on 31 January 2019 with an aggregate principal amount of HK\$260.4 million (31 December 2016: HK\$260.4 million) with a conversion price of HK\$0.035 per share.

As at 30 June 2017, the Group had no outstanding bank borrowings (31 December 2016: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 30 June 2017 and 31 December 2016.

As at 30 June 2017, the Group had no capital expenditure commitments (31 December 2016: nil).

Significant Investments

The Group did not have any significant investments during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group did not have any material acquisitions or disposals of subsidiaries and associated companies during the Reporting Period.

Charge on Group's Assets

As at 30 June 2017, the Group did not have any assets pledged (31 December 2016: nil).

Foreign Exchange Exposures

The Group mainly earns revenue and incurs costs in Hong Kong dollars, U.S. dollars and Renminbi ("RMB"). The management is aware of the possible exchange rate exposure resulted from the fluctuation of RMB against the Hong Kong dollars and will closely monitor its impact on the performance of the Group to determine if any hedging policy is necessary. With regard to the U.S. dollars, foreign exchange exposure would be minimal so long as the Hong Kong SAR Government's policy to peg the Hong Kong dollars to the U.S. dollars remains in effect.

Contingent Liabilities

Details of the contingent liabilities of the Group are set out in note 16 to the condensed consolidated financial statements.

Employee and Remuneration Policy

As at 30 June 2017, the Group had 434 (30 June 2016: 605) full time employees in Hong Kong, the People's Republic of China (the "PRC" or "China") (including 387 (30 June 2016: 567) subcontractor's staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK\$14.3 million (six months ended 30 June 2016: approximately HK\$13.6 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Outlook

According to the International Monetary Fund (the “IMF”), the pickup in global growth remains on track, with global output projected to grow by 3.5% in 2017 and 3.6% in 2018. But the lack of change in the world’s headline growth masked what the IMF said was a rotation in the source of growth, according to a report dated 24 July 2017 in the Financial Times (the “FT”), as better growth in China, the euro zone and Japan is making up for a slower-than-expected U.S. economy and Donald Trump’s stalled economic promises as well as a faltering U.K. The IMF has revised down its growth forecast for the U.S. from 2.3% to 2.1% in 2017 and from 2.5% to 2.1% in 2018. The major factor behind the growth revisions, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of the U.S. fiscal policy. According to the IMF, the projected global growth rates for 2017 and 2018, though higher than the 3.2% estimated for 2016, are below pre-crisis averages, especially for most advanced economies and for commodity-exporting emerging and developing economies.

The Chinese economy grew by 6.9% in the first and second quarters of 2017, beating the full-year target of around 6.5% and an uptick on the 6.7% expansion in 2016, as unexpected strength in the property market kept growth humming, according to a report dated 17 July 2017 in the FT. According to a report dated 31 July 2017 in the South China Morning Post (the “SCMP”), the official purchasing managers’ index dipped to 51.4 in July 2017 from 51.7 in June 2017, as foreign demand for Chinese goods slackened, but a government-led infrastructure push helped prop up the world’s second-largest economy. In the medium term, however, risks from rising debt and overcapacity in the large swaths of the manufacturing sector still loom over the economy, according to the FT report dated 17 July 2017. Beijing has relied on massive infrastructure and property investment financed by easy credit in recent years to achieve stable economic growth, leading to increasing debt level in the economy despite repeated calls to cut leverage. By the end of 2016, China’s overall debt and corporate debt rose to 257% and 166% of GDP, respectively, according to reports dated 11, 17 and 27 July 2017 in the SCMP.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Future Outlook *(Continued)*

Growth in China is expected to decelerate in the second half of 2017 and into 2018 as the government seeks to reduce financial risks. Beijing has made containing financial risks a priority this year, fearing bubbles in its financial and housing markets. Regulators have clamped down on speculative activity and have reined in institutions from insurance companies to property developers, according to reports dated 14 June and 20 July 2017 in the FT. Financial tightening will exert downward pressure on credit growth, private investment and construction activity, though policymakers are mindful of the challenges of reigning in financial leverage to root out risks without blocking credit inflows, which could lead to a sharp deceleration of growth, according to reports dated 21 June and 4 July 2017 in the SCMP. The IMF has revised up its growth forecast for China to 6.7% from 6.6% in 2017, and to 6.4% from 6.2% in 2018. The upward revision for 2018 mainly reflected an expectation that the authorities would delay the needed fiscal adjustment (especially by maintaining high public investment) to meet the target of doubling 2010 real GDP by 2020. The IMF warned that delay came at the cost of further large increases in debt and downside risks around this baseline had increased.

Against this backdrop, the operating environment for manufacturers in the PRC is likely to remain challenging and would continue to have an impact on the performance of the Group's electronic products business in the future. Although signs of pickup in the electronic products industry have been indicated, raw material cost is expected to increase due to the in-equilibrium in supply and demand. At the same time, the pressure from the increase in labour cost and other production cost cannot be ignored. The Group will try to maintain a better relationship with its suppliers in order to stabilise the supply and cost of raw materials as well as continue to implement its cost control measures including but not limited to the outsourcing of some labour intensive process in order to minimise the products cost.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in the shares and underlying shares of the Company:

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	86,827,895	0.63%

Note: Mr. Huang Hanshui, an executive Director, has a derivative interest in 86,827,895 shares pursuant to share options granted to him on 6 December 2010.

Saves as disclosed above, as at 30 June 2017, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2017, the register of substantial shareholders of the Company maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the Chief Executives, the following shareholder of the Company ("Shareholder(s)") had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in the shares and underlying shares of the Company:

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	9,182,985,823	66.12%

Note: Mr. Li Weimin is interested in 9,182,985,823 shares, consisting of (i) an interest in 1,742,985,823 shares beneficially owned and held in his own name; and (ii) a derivative interest in 7,440,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK\$260,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2017.

SHARE OPTION SCHEME

On 8 June 2012, the Company adopted a new share option scheme (the "Scheme") under which the Board may, at its discretion, grant options to eligible participants under the Scheme. The Board is able to grant options under the Scheme carrying the right to subscribe for a maximum of 1,388,919,858 shares, representing 10% of the total number of shares in issue as at the date of the annual general meeting of the Company held on 5 June 2017.

SHARE OPTION SCHEME (Continued)

The following table discloses the movements of the Company's share options for the Reporting Period:

Participants	Date of grant	Exercise price per share	Number of share options				Outstanding at 30 June 2017 '000
			Outstanding at 1 January 2017 '000	Grand during the period '000	Exercised during the period '000	Cancelled/ lapsed during the period '000	
Director							
Mr. Huang Hanshui	6 December 2010	HK\$0.305	86,828	-	-	-	86,828
Customers, suppliers and other eligible persons (in aggregate)							
	6 December 2010	HK\$0.305	86,828	-	-	-	86,828
	30 November 2011	HK\$0.098	226,284	-	-	-	226,284
			399,940	-	-	-	399,940
Exercisable at the end of the Reporting Period							399,940
Weighted average exercise price			HK\$0.188	-	-	-	HK\$0.188

The share options outstanding at 30 June 2017 had an exercisable period of ten years from the date of grant.

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

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

CORPORATE GOVERNANCE PRACTICES

During the Reporting Period, the Company has applied the principles of and complied with the code provisions (the “Code Provision(s)”) set out in the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Listing Rules except for the following deviations:

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company’s strategies under this arrangement. The Board shall review this arrangement from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

Moreover, under the Code Provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. Mr. Ho Chi Fai, an independent non-executive Director, is not appointed for a specific term but his directorship is subject to retirement by rotation and re-election in accordance with the bye-laws of the Company (the “Bye-laws”) and the Listing Rules. Under the Bye-laws, one-third of the directors shall retire from office by rotation at each annual general meeting. According to the Listing Rules, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Directors will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making process are regulated in a proper and prudent manner.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE REVIEW

The audit committee of the Company (the “Audit Committee”) has reviewed with management of the Company the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the Reporting Period.

The members of the Audit Committee are Mr. Ho Chi Fai (the chairman of the Audit Committee), Ms. Liu Yanfang and Mr. Zhang Jue, the independent non-executive Directors.

APPRECIATION

On behalf of the Board, I would like to thank all employees for their hard work and dedication as well as our Shareholders and business partners for their continued support.

On behalf of the Board
Ruixin International Holdings Limited
Wang Zhaofeng
Chairman

Hong Kong, 25 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	246,754	223,963
Cost of sales		(235,011)	(210,901)
Gross profit		11,743	13,062
Other income		1,290	161
Distribution costs		(10,800)	(9,144)
Administrative expenses		(23,740)	(23,741)
Share of results of joint ventures		(2)	(754)
Finance costs	4	(7,088)	(6,069)
Loss before taxation		(28,597)	(26,485)
Taxation	5	–	(16,628)
Loss for the period attributable to owners of the Company	6	(28,597)	(43,113)
Loss per share (in Hong Kong cents)	8		
Basic and diluted		(0.206)	(0.310)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period	<u>(28,597)</u>	<u>(43,113)</u>
Other comprehensive (expense) income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	<u>(148)</u>	<u>204</u>
Total comprehensive expenses for the period attributable to owners of the Company	<u>(28,745)</u>	<u>(42,909)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	14,784	15,407
Interests in joint ventures	10	2,592	2,594
		<u>17,376</u>	<u>18,001</u>
Current assets			
Inventories		67,999	80,847
Trade and bills receivables	11	181,536	167,682
Prepayments, deposits and other receivables		4,069	3,385
Amounts due from former subsidiaries		–	–
Deposits in other financial institutions		446	446
Bank balances and cash		55,438	64,387
		<u>309,488</u>	<u>316,747</u>
Current liabilities			
Trade and bills payables	12	61,034	46,664
Other payables and accruals		10,546	10,414
Amount due to a joint venture		2,483	2,495
Amounts due to former subsidiaries		–	–
Convertible notes	13	–	260,400
		<u>74,063</u>	<u>319,973</u>
Net current assets (liabilities)		<u>235,425</u>	<u>(3,226)</u>
Total assets less current liabilities		<u>252,801</u>	<u>14,775</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2017

	Notes	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Non-current liabilities			
Employee benefits		157	157
Convertible notes	13	233,900	–
		<u>234,057</u>	<u>157</u>
Net assets		<u>18,744</u>	<u>14,618</u>
Capital and reserves			
Share capital	14	138,892	138,892
Reserves		(120,148)	(124,274)
Total equity		<u>18,744</u>	<u>14,618</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	138,892	2,271,283	5,800	21,668	779	49,464	-	(2,473,268)	14,618
Loss for the period	-	-	-	-	-	-	-	(28,597)	(28,597)
Other comprehensive expense for the period	-	-	-	-	(148)	-	-	-	(148)
Total comprehensive expense for the period	-	-	-	-	(148)	-	-	(28,597)	(28,745)
Derecognition upon modification of terms of convertible notes (note 13)	-	-	-	-	-	(49,464)	-	49,464	-
Recognition upon modification of terms of convertible notes (note 13)	-	-	-	-	-	78,400	33,588	(78,400)	33,588
Transaction costs attributable to modification of terms of convertible notes (note 13)	-	-	-	-	-	-	(717)	-	(717)
At 30 June 2017 (unaudited)	138,892	2,271,283	5,800	21,668	631	78,400	32,871	(2,530,801)	18,744

For the six months ended 30 June 2016

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	138,892	2,271,283	5,800	21,668	231	49,464	-	(2,406,565)	80,773
Loss for the period	-	-	-	-	-	-	-	(43,113)	(43,113)
Other comprehensive income for the period	-	-	-	-	204	-	-	-	204
Total comprehensive expenses for the period	-	-	-	-	204	-	-	(43,113)	(42,909)
At 30 June 2016 (unaudited)	138,892	2,271,283	5,800	21,668	435	49,464	-	(2,449,678)	37,864

Note: The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Net cash used in operating activities	(4,786)	(5,288)
Net cash used in investing activities	(3,291)	(46)
Net cash used in financing activities	(717)	—
Net decrease in cash and cash equivalents	(8,794)	(5,334)
Cash and cash equivalents at beginning of the period	64,387	66,813
Effect of foreign exchange rate changes	(155)	222
Cash and cash equivalents at end of the period, representing bank balances and cash	55,438	61,701

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

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

The Group has not applied any new or revised HKFRSs that are not yet effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material impact on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

For the six months ended 30 June 2017

3. REVENUE AND SEGMENT INFORMATION

As set out in the Company's annual report for the year ended 31 December 2016 (the "2016 Annual Report"), the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

Revenue represents revenue arising on manufacturing and trading of electronic and electrical parts and components.

4. FINANCE COSTS

	Six months ended 30 June	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Imputed interest expenses on convertible notes	7,088	6,069

5. TAXATION

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2017 and 2016 as the Group has no assessable profits arising in Hong Kong for both reporting periods. The tax rate of Hong Kong Profits Tax is 16.5% (2016:16.5%).

The Hong Kong Inland Revenue Department ("IRD") enquired Hong Kong Profits Tax of a subsidiary of the Company in respect of the years of assessment 2006/07 to 2014/15 (the "Tax Enquiries"). As the assessment would be statutorily time-barred within 7 years from the beginning of the year of assessment which the assessment was related, a protective assessment of approximately HK\$1,555,000, HK\$2,395,000 and HK\$5,217,000, in respect of years of assessment 2006/07, 2007/08 and 2008/09, were raised by the IRD on 7 March 2013, 18 March 2014 and 18 March 2015 respectively. The subsidiary lodged objections against the assessment and the IRD held over the payment of the profits tax and an equal amount of tax reserve certificates were purchased and recorded as tax recoverable as at 31 December 2015.

During the six months ended 30 June 2016, in respect of the Tax Enquiries, as the assessment for the year of assessment 2009/10 would be statutorily time-barred by 31 March 2016, a protective assessment of approximately HK\$1,488,000 was raised by the IRD on 15 March 2016. The subsidiary lodged an objection against the assessment and the IRD held over the payment of the profits tax and an equal amount of tax reserve certificates were purchased.

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

For the six months ended 30 June 2017

5. TAXATION *(Continued)*

Subsequent to the six months ended 30 June 2016, in avoiding further lengthy objection process regarding the dispute with the IRD, the subsidiary has withdrawn the objections in July 2016 and compromised with the IRD on the Tax Enquiries. The IRD has issued final tax assessments in respect of the Tax Enquiries in aggregate of approximately HK\$16,692,000 in August 2016 (the "Assessed Amount"). The Assessed Amount was settled during the year ended 31 December 2016 by the subsidiary. For details, please refer to the 2016 Annual Report.

Under the Law of the People's Republic of China (the "PRC" or "China") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% for the six months ended 30 June 2017 and 2016. No provision for the Enterprise Income Tax have been made for the six months ended 30 June 2017 and 2016 as the subsidiary of the Company has no assessable profits.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% for the six months ended 30 June 2017. No provision for the Corporate Income Tax has been made for the six months ended 30 June 2017 as the subsidiary of the Company has no assessable profits.

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	(6)	(5)
Depreciation of property, plant and equipment	3,947	5,897
Reversal of impairment loss on trade receivables	–	(103)
Write-back of accruals	(232)	–
Net exchange (gain) loss	(1,020)	1,767
Net gain on disposals of property, plant and equipment	(32)	(11)

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company (the "Director(s)") do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

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

For the six months ended 30 June 2017

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK\$28,597,000 (six months ended 30 June 2016: approximately HK\$43,113,000) and the weighted average number of approximately 13,889,199,000 (six months ended 30 June 2016: approximately 13,889,199,000) ordinary shares in issue during the reporting period.

For the six months ended 30 June 2017 and 2016, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the six months ended 30 June 2017 and 2016 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the six months ended 30 June 2017 and 2016 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group spent approximately HK\$3,317,000 on the addition of plant and machinery and leasehold improvements and others (six months ended 30 June 2016: approximately HK\$405,000 on the addition of leasehold improvements and others).

Property, plant and equipment with a net carrying value of approximately HK\$nil were disposed of by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: approximately HK\$351,000) for cash proceeds of approximately HK\$32,000 (six months ended 30 June 2016: approximately HK\$362,000), resulting in a net gain on disposals of approximately HK\$32,000 (six months ended 30 June 2016: approximately HK\$11,000).

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

For the six months ended 30 June 2017

10. INTERESTS IN JOINT VENTURES

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Cost of unlisted investments in joint ventures	5,998	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	(3,406)	(3,404)
	2,592	2,594

Details of each of the Group's joint ventures, which are accounted for using the equity method in the condensed consolidated financial statements, as at 30 June 2017 and 31 December 2016, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2017		2016		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	-	50%	-	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	-	50%	-	50%	Trademark holding

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

For the six months ended 30 June 2017

11. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period of 30 to 120 days (31 December 2016: 30 to 120 days) to its trade customers.

The following is an ageing analysis of trade and bills receivables, net of impairment, presented based on the due date at the end of the reporting periods:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Current	162,030	149,986
Overdue:		
– within 3 months	16,268	14,110
– 4 - 6 months	3,238	3,402
– 7 - 12 months	–	184
	19,506	17,696
	181,536	167,682

12. TRADE AND BILLS PAYABLES

The following is an ageing analysis of trade and bills payables presented based on the due date at the end of the reporting periods:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Current	60,782	46,306
Overdue:		
– within 3 months	252	347
– 4 - 6 months	–	11
	61,034	46,664

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

For the six months ended 30 June 2017

13. CONVERTIBLE NOTES

As at 30 June 2017 and 31 December 2016, the principal amount of convertible notes that remained outstanding was HK\$260,400,000. On 14 November 2014, the Company and the convertible notes holder entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK\$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK\$0.12 per share would be adjusted to the conversion price of HK\$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual reports for the years ended 31 December 2015 and 2016.

Convertible notes of the Company with an aggregate principal amount of HK\$42,000,000 were converted into 1,199,999,998 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.035 per share on 4 June 2015.

On 14 December 2016, the Company and the convertible notes holder entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, the maturity date of the outstanding convertible notes with an aggregate principal amount of HK\$260,400,000 would be extended from 31 December 2016 to 31 January 2019. Save for the above alteration, all other terms and conditions of the outstanding convertible notes remained unchanged. On 16 January 2017, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 December 2016 and 16 January 2017, as well as the circular of the Company dated 29 December 2016 and the 2016 Annual Report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the six months ended 30 June 2017

13. CONVERTIBLE NOTES (Continued)

The extension of the maturity date resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 16 January 2017, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK\$260,400,000 and HK\$49,464,000 respectively. According to a valuation report issued by an independent professional valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK\$226,812,000 and HK\$78,400,000 respectively. These caused an increase of approximately HK\$32,871,000 (net of the transaction costs of approximately HK\$717,000) in other reserve and a transfer of a net amount of approximately HK\$28,936,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the six months ended 30 June 2017.

The imputed interest charged on the convertible notes for the six months ended 30 June 2017 amounted to approximately HK\$7,088,000 (six months ended 30 June 2016: approximately HK\$6,069,000).

14. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised ordinary shares of HK\$0.01 each:		
At 1 January 2016, 31 December 2016 and 30 June 2017	30,000,000	300,000
Issued and fully paid ordinary shares of HK\$0.01 each:		
At 1 January 2016, 31 December 2016 and 30 June 2017	13,889,199	138,892

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

For the six months ended 30 June 2017

15. RELATED PARTY TRANSACTIONS

During the current interim period, the Group had the following transactions with related parties:

- (a) The following balances were outstanding at the end of the reporting periods:

	Amounts due from related parties		Amounts due to related parties	
	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
A joint venture (note i)	–	–	2,483	2,495
Directors' emoluments payable (included in other payables)	–	–	961	991
Former subsidiaries (note ii)	–	–	–	–

Notes:

- (i) The amount due to a joint venture was unsecured, interest-free and repayable on demand.
- (ii) The amounts due from (to) former subsidiaries were unsecured, interest-free and repayable on demand.

As at 1 January 2016, included in the impairment on amounts due from former subsidiaries were individually impaired amounts due from former subsidiaries with an aggregate balance of approximately HK\$172,244,000 (30 June 2017 and 31 December 2016: nil) which had been placed under liquidation.

Subsequent to the year ended 31 December 2016, the winding-up of CITIC Logistics (International) Company Limited ("CLI") and certain of its subsidiaries has been completed according to the liquidators of CLI. As a result, the corresponding amounts due from former subsidiaries were written off as uncollectible and amounts due to former subsidiaries of approximately HK\$4,417,000 were written back as other income for the year ended 31 December 2016. For details, please refer to the 2016 Annual Report.

- (b) As set out in note 10, Semtech Electronics is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration.

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

For the six months ended 30 June 2017

15. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	4,391	4,824
Post-employment benefits	117	161
	4,508	4,985

16. CONTINGENT LIABILITIES

On 15 July 2009, one of the subsidiaries of Classic Line International Limited ("Classic Line"), a former subsidiary of the Company, has been and is the subject of a judgement (in the amount of US\$13.5 million) obtained in a United States court in an action in respect of damages allegedly arising out of use of fire lighters sold by the subsidiary of Classic Line. The Company is one of the co-defendants in the case. On 28 September 2009, the Company entered into an agreement to dispose of the entire equity interest in Classic Line and the disposal was completed on 31 October 2009.

Based on the legal advice received by the Company, the Directors considered that the Company has valid grounds in opposing the enforcement of any judgement of the said case against the Company, if obtained, in Hong Kong and Bermuda. Accordingly, no provision has been made in the condensed consolidated financial statements.

17. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's financial instruments, including the loans and receivables (including trade and bills receivables, deposits and other receivables, amounts due from former subsidiaries, deposits in other financial institutions and bank balances and cash) and financial liabilities (including trade and bills payables, other payables and accruals, amount due to a joint venture, amounts due to former subsidiaries and convertible notes), are recorded at amortised cost. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.