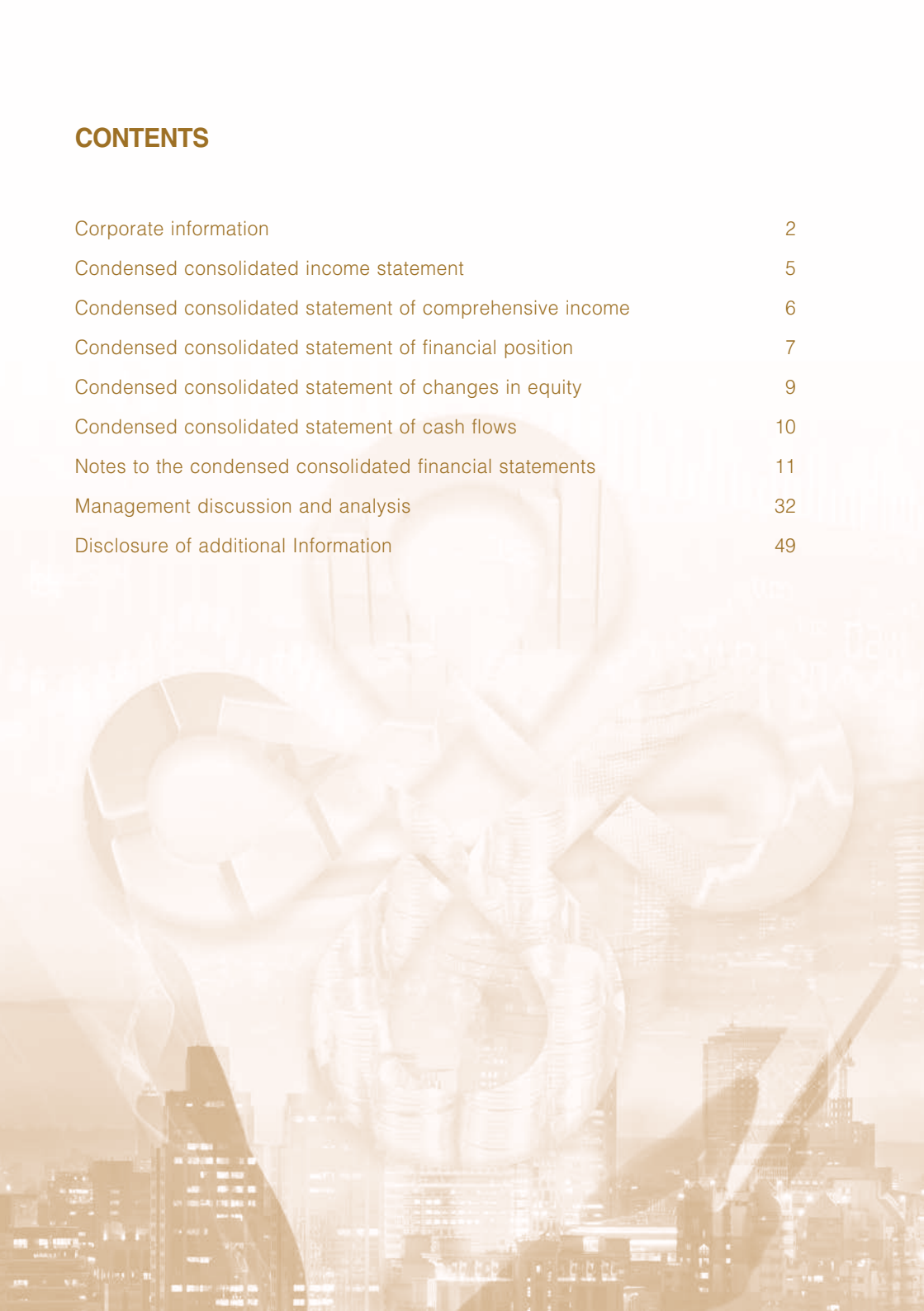




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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Director:

Li Chongyang (*Managing Director*)

Qi Jiao

Lam Kai Yeung<sup>(Note 2)</sup>

*(re-designated on 31 July 2018)*

Leung Chi Fai<sup>(Note 1)</sup>

*(executive duties suspended on 27 July 2018)*

#### Non-executive Director:

Huang Weidong (*Chairman*)

Liu Chenli<sup>(Note 4)</sup>

*(resigned on 3 August 2018)*

#### Independent Non-executive Director:

Cong Yongjian

Lam Huen Sum

Ng Yuk Lam<sup>(Note 3)</sup>

*(appointed on 31 July 2018)*

### COMPANY SECRETARY

Leung Chi Fai<sup>(Note 1)</sup>

*(resigned on 31 July 2018)*

Lam Kai Yeung<sup>(Note 2)</sup>

*(appointed on 31 July 2018)*

### LEGAL ADVISERS

As to Bermuda law:

Conyers Dill & Pearman

2901, One Exchange Square

8 Connaught Place

Central

Hong Kong

As to Hong Kong law:

King & Wood Mallesons

13/F Gloucester Tower

The Landmark

15 Queen's Road Central

Central

Hong Kong

### AUDITOR

ZHONGHUI ANDA CPA Limited

*Certified Public Accountants*

Unit 701-3 & 8, Citicorp Centre

18 Whitfield Road

Causeway Bay

Hong Kong

### AUTHORISED REPRESENTATIVES

Li Chongyang

Lam Kai Yeung<sup>(Note 2)</sup>

*(appointed on 31 July 2018)*

Leung Chi Fai<sup>(Note 1)</sup>

*(resigned on 31 July 2018)*

### AUDIT COMMITTEE

Ng Yuk Lam<sup>(Note 3)</sup> (*Chairman*)

*(appointed on 31 July 2018)*

Cong Yongjian

Liu Chenli<sup>(Note 4)</sup>

*(resigned on 3 August 2018)*

Lam Huen Sum

## CORPORATE INFORMATION

### REMUNERATION COMMITTEE

Ng Yuk Lam<sup>(Note 3)</sup> (Chairman)  
(appointed on 31 July 2018)

Cong Yongjian

Huang Weidong

Lam Huen Sum

Lam Kai Yeung<sup>(Note 2)</sup>

(appointed on 31 July 2018)

Leung Chi Fai<sup>(Note 1)</sup>

(resigned on 31 July 2018)

Liu Chenli<sup>(Note 4)</sup>

(resigned on 3 August 2018)

### NOMINATION COMMITTEE

Huang Weidong (Chairman)

Cong Yongjian

Lam Kai Yeung

Lam Huen Sum

Ng Yuk Lam<sup>(Note 3)</sup>

(appointed on 31 July 2018)

Leung Chi Fai<sup>(Note 1)</sup>

(resigned on 31 July 2018)

Liu Chenli<sup>(Note 4)</sup>

(resigned on 3 August 2018)

#### Notes:

1. On 27 July 2018, Mr. Leung Chi Fai has been suspended as the executive director, finance director, company secretary, a member of each of the remuneration committee and nomination committee of the Company/the Group, and an authorised representative. On 31 July 2018, Mr. Leung Chi Fai has resigned as the company secretary of the Company and ceased to be an authorised representative.
2. On 31 July 2018, Mr. Lam Kai Yeung was re-designated from an independent non-executive Director to an executive Director, resigned as each of a chairman of the audit committee and remuneration committee, and was appointed as the chief financial officer, company secretary, an authorised representative and a member of remuneration committee of the Company.
3. On 31 July 2018, Mr. Ng Yuk Lam was appointed as an independent non-executive Director, the chairman of each of the audit committee and the remuneration committee and a member of the nomination committee of the Company.
4. On 3 August 2018, Mr. Liu Chenli resigned as the non-executive Director and a member of each of the audit committee, remuneration committee and nomination committee of the Company.

## CORPORATE INFORMATION

### REPORT REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 1902  
Cheung Kong Center  
2 Queen's Road Central  
Central  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services  
(Bermuda) Limited  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

In Hong Kong:  
Bank of Communication Co., Ltd,  
Hong Kong Branch  
Dah Sing Bank Limited  
Industrial Bank Co., Ltd,  
Hong Kong Branch

In the People's Republic of China (the "PRC"):  
Guangdong Yangdong Rural  
Commercial Bank  
China Construction Bank Corporation  
Industrial and Commercial Bank of  
China Limited

### WEBSITE

<http://www.irasia.com/listco/hk/sunway>

### STOCK CODE

The Stock Exchange of Hong Kong Limited: 58

# CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		<b>Six months ended</b>	
	Notes	<b>30 June 2018 HK\$'000 (Unaudited)</b>	30 June 2017 HK\$'000 (Unaudited)
<b>REVENUE</b>	4	<b>200,187</b>	141,628
Cost of sales		<u>(144,565)</u>	<u>(106,899)</u>
Gross profit		<b>55,622</b>	34,729
Other income		<b>5,720</b>	676
Other gains and losses	5	<b>(5,154)</b>	(2,035)
Selling and distribution expenses		<b>(28,492)</b>	(12,021)
Administrative expenses		<b>(23,027)</b>	(22,851)
Other expenses		<b>(171)</b>	(66)
Finance costs	6	<b>(1,688)</b>	(1,396)
<b>PROFIT/(LOSS) BEFORE TAX</b>	7	<b>2,810</b>	(2,964)
Income tax expenses	8	<b>(2,033)</b>	(3,038)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b><u>777</u></b>	<u>(6,002)</u>
Profit/(Loss) for the period attributable to:			
Owners of the Company		<b>(4,712)</b>	(8,807)
Non-controlling interests		<b>5,489</b>	2,805
		<b><u>777</u></b>	<u>(6,002)</u>
Loss per share attributable to owners of the Company for the period	10		(Restated)
Basic and diluted		<b><u>HK\$(0.7 cents)</u></b>	<u>HK\$(1.9 cents)</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>777</b>	<b>(6,002)</b>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME</b>		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	<b>(2,863)</b>	2,110
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>(2,086)</b>	<b>(3,892)</b>
Total comprehensive (loss)/income for the period attributable to:		
Owners of the Company	<b>(6,517)</b>	(8,430)
Non-controlling interests	<b>4,431</b>	4,538
	<b>(2,086)</b>	<b>(3,892)</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	30 June 2018 HK\$'000 (Unaudited)	31 December 2017 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	96,819	107,588
Intangible assets		11,786	11,786
Prepaid land lease payments		23,425	23,982
Goodwill		20,982	20,982
Deferred tax assets		15,201	14,056
Construction in progress		169	–
		<hr/>	<hr/>
Total non-current assets		168,382	178,394
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss		431	9,397
Inventories		20,115	11,579
Trade and bill receivables	12	223,602	229,923
Prepayments, deposits and other receivables	13	248,878	215,490
Restricted bank deposits		53	66
Cash and cash equivalents		51,285	77,146
		<hr/>	<hr/>
Total current assets		544,364	543,601
<b>CURRENT LIABILITIES</b>			
Trade payables	14	34,019	25,567
Other payables and accruals		44,304	47,863
Amount due to a non-controlling shareholder		514	521
Interest-bearing borrowings		25,186	26,722
Tax payable		7,754	8,630
		<hr/>	<hr/>
Total current liabilities		111,777	109,303



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
<b>NET CURRENT ASSETS</b>		<b>432,587</b>	434,298
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>600,969</b>	612,692
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>6,991</b>	8,078
Provision for long service payment		<b>18</b>	20
Interest-bearing borrowings		<b>18,881</b>	17,415
Total non-current liabilities		<b>25,890</b>	25,513
<b>NET ASSETS</b>		<b>575,079</b>	587,179
<b>EQUITY</b>			
Share capital	15	<b>62,413</b>	64,271
Convertible notes		<b>12,600</b>	12,600
Reserves		<b>422,381</b>	437,054
Equity attributable to owners of the Company		<b>497,394</b>	513,925
Non-controlling interests		<b>77,685</b>	73,254
<b>TOTAL EQUITY</b>		<b>575,079</b>	587,179

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to Owners of the Company										Total equity HK\$'000 (Unaudited)		
	Share capital HK\$'000 (Unaudited)	Convertible notes HK\$'000 (Unaudited)	Share premium account HK\$'000 (Unaudited)	Contributed surplus HK\$'000 (Unaudited)	Capital redemption reserve HK\$'000 (Unaudited)	Share option reserve HK\$'000 (Unaudited)	Asset revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation HK\$'000 (Unaudited)	PRC statutory reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)		Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)
As at 1 January 2018	64,271	12,600	606,327	157,118	509	24,159	11,179	(1,688)	8,282	(369,432)	513,925	73,254	587,179
(Loss)/Profit for the period	-	-	-	-	-	-	-	-	-	(4,712)	(4,712)	5,489	777
Other comprehensive loss for the period:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(1,805)	-	-	(1,805)	(1,059)	(2,863)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	(1,805)	-	(4,712)	(6,517)	4,431	(2,086)
Shares repurchased and cancelled	(1,858)	-	(8,099)	-	1,858	-	-	-	-	(1,858)	(9,857)	-	(9,857)
Transfer of PRC statutory reserve	-	-	-	-	-	-	-	-	1,156	(1,156)	-	-	-
Transaction costs attributable to Shares repurchased and cancelled	-	-	(57)	-	-	-	(605)	-	-	-	(57)	-	(57)
Disposal of assets	-	-	-	-	-	-	-	-	-	605	-	-	-
As at 30 June 2018	62,413	12,600	598,771	157,118	2,367	24,159	10,574	(3,493)	9,438	(376,553)	487,394	77,685	575,079
As at 1 January 2017	44,842	12,600	453,298	157,118	509	28,488	7,630	(3,787)	7,187	(365,528)	342,357	62,221	404,578
(Loss)/Profit for the period	-	-	-	-	-	-	-	-	-	(8,807)	(8,807)	2,805	(6,002)
Other comprehensive income for the period:													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	377	-	-	377	1,733	2,110
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	377	-	(8,807)	(8,430)	4,538	(3,892)
Issue of shares by way of placing	8,729	-	66,339	-	-	-	-	-	-	-	75,068	-	75,068
Transfer of PRC statutory reserve	-	-	-	-	-	-	-	-	2,033	(871)	1,162	(1,162)	-
Transaction costs attributable to issue of placing shares	-	-	(1,929)	-	-	-	-	-	-	-	(1,929)	-	(1,929)
As at 30 June 2017	53,571	12,600	517,709	157,118	509	28,488	7,630	(3,410)	9,220	(375,205)	408,229	65,597	473,826

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	<b>Six months ended</b>	
	<b>30 June 2018 HK\$'000 (Unaudited)</b>	30 June 2017 HK\$'000 (Unaudited)
Net cash used in operating activities	<b>(19,386)</b>	(19,681)
Net cash generated from/(used in) investing activities	<b>11,058</b>	(23,651)
Net cash (used in)/generated from financing activities	<b>(12,500)</b>	80,292
Net (decrease)/increase in cash and cash equivalents	<b>(20,828)</b>	36,960
Cash and cash equivalents at the beginning of the period	<b>77,146</b>	46,107
Effect of foreign exchange rate changes	<b>(5,033)</b>	(2,899)
Cash and cash equivalents at the end of the period	<b><u>51,285</u></b>	<u>80,168</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b><u>51,285</u></b>	<u>80,168</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 1. CORPORATE INFORMATION

Sunway International Holdings Limited (the “Company”, together with its subsidiaries collectively as the “Group”) is a limited liability company incorporated in Bermuda and the issued shares of which are listed on Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is Unit 1902, Cheung Kong Center, 2 Queen’s Road Central, Central, Hong Kong. During the period, the Company’s principal activity is investment holding.

The Group is principally engaged in manufacturing and trading of pre-stressed high strength concrete pile, ready-mixed concrete, sand-lime bricks, aerated concrete products and eco-concrete products and provision of financial services.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### 2.1. Basis of presentation

The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”).

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2017 (the “Annual Financial Statements 2017”) of the Company, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

### 2.2 Principal accounting policies

The accounting policies used in preparation of these financial statements are consistent with those adopted in the Annual Financial Statements 2017, except for the adoption of the new and amended HKFRSs (which also include HKASs and Interpretations) as mentioned below.

A number of new or amended standards became applicable for the current accounting period. Of these, the followings are relevant to the Group’s condensed consolidated financial statements.

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Principal accounting policies *(Continued)*

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The Group had to change its accounting policies as a result of adopting the above new standards. The impact of the adoption of these standards and new accounting policies are disclosed below. The other standards and interpretation did not have material impact in the Group's accounting policies and did not require any adjustments.

#### *(i) HKFRS 9 Financial Instruments*

Investments and other financial assets

##### *Classification*

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

##### *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial asset carried at FVPL are expensed in profit or loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Principal accounting policies *(Continued)*

#### (i) HKFRS 9 Financial Instruments *(Continued)*

Investments and other financial assets *(Continued)*

*Measurement (Continued)*

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

#### (a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories to classify the debt instruments:

#### (1) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income, except for interest income generated from loan receivables which is included in revenue, using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the condensed consolidated income statement.

#### (2) Fair value through other comprehensive income

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the condensed consolidated income statement.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Principal accounting policies *(Continued)*

#### (i) HKFRS 9 Financial Instruments *(Continued)*

Investments and other financial assets *(Continued)*

*Measurement (Continued)*

#### (a) Debt instruments *(Continued)*

#### (3) Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

#### (b) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains, net when the Group's right to receive payments is established.

Changes in the fair value of financial asset at FVPL are recognised in other gains, net in the interim condensed consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### *Impairment*

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and bill receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.2 Principal accounting policies (Continued)

#### (ii) HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 Revenue which covered revenue arising from sale of goods and rendering of services, and HKAS 11 Construction contracts which specified the accounting for construction contracts.

Under the requirement of HKFRS 15, revenue from sale of goods and provision of services by the Group is recognised when the customer obtains control of the promised goods and services in the contract. Transfer of significant risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

As at 30 June 2018, the Group has contract liabilities of HK\$5,366,000 (31 December 2017: HK\$7,847,000 as receipt in advance from customers), which represents the obligation to transfer goods to customers for which the consideration has been received, and is included in "other payables and accruals" in the condensed consolidated statement of financial position. Except that, the adoption of HKFRS 15 has no significant financial impact on these condensed consolidated financial statements.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION

The Group has three reportable segments as follows:

- Sales and manufacturing of pre-stressed steel bar (the “PC steel bar”);
- Sales and manufacturing of high-strength concrete piles, ready-mixed concrete, autoclaved sand-lime bricks, aerated concrete products and eco-permeable concrete products (the “PHC piles and others”); and
- Money lending, provision of assets management services, advising on securities services and securities brokerage services (the “Financial services”).

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reporting segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group’s profit/loss before tax except that head office and corporate expenses, bank interest income, other gains and losses, net and finance costs are excluded from such measurement. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets exclude goodwill, derivative instruments, deferred tax assets, financial assets at FVPL, restricted bank deposits, pledged bank deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Segment liabilities exclude interest-bearing borrowings, tax payable, deferred tax liabilities, other payable and unallocated head office and corporate liabilities, as these liabilities are managed on a group basis. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION *(Continued)*

### (a) Segment results, segment assets and liabilities

	PC steel bar HK\$'000	PHC piles and others HK\$'000	Financial services HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2018</b>				
Segment revenue				
Revenue from external customers	–	194,525	5,662	200,187
Segment results	5,590	17,102	(3,340)	19,352
Reconciliation:				
Bank interest income				75
Other gains and losses, net				2
Finance costs				(1,688)
Unallocated head office and corporate expenses				(14,931)
Profit before tax				2,810
Income tax expense				(2,033)
Profit for the period				<u>777</u>
<b>As at 30 June 2018</b>				
Segment assets	12,339	346,393	155,061	513,793
Unallocated assets				198,953
				<u>712,746</u>
Segment liabilities	(20,735)	(50,631)	(126)	(71,492)
Unallocated liabilities				(66,175)
				<u>(137,667)</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION *(Continued)*

### (a) Segment results, segment assets and liabilities *(Continued)*

	PC steel bar HK\$'000	PHC piles and others HK\$'000	Financial services HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2017</b>				
Segment revenue				
Revenue from external customers	–	136,619	5,009	141,628
Segment results	(909)	11,725	(6,382)	4,434
Reconciliation:				
Bank interest income				9
Other gains and losses, net				48
Finance costs				(1,396)
Unallocated head office and corporate expenses				(6,059)
Loss before tax				(2,964)
Income tax expense				(3,038)
Loss for the period				<u>(6,002)</u>
<b>As at 31 December 2017</b>				
Segment assets	1,694	337,900	148,827	488,421
Unallocated assets				233,574
				<u>721,995</u>
Segment liabilities	(21,057)	(46,826)	(92)	(67,975)
Unallocated liabilities				(66,841)
				<u>(134,816)</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

### (b) Other segment information

	PC steel bar HK\$'000	PHC piles and others HK\$'000	Financial services HK\$'000	Corporate/ unallocated HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2018</b>					
Other segment information:					
Capital expenditure	-	(369)	(88)	-	(457)
Depreciation	-	(9,727)	(303)	(289)	(10,319)
Amortisation of prepaid land lease payments	-	(294)	-	-	(294)
Provision for impairment loss of trade receivables, net	-	(3,604)	(1,049)	-	(4,653)
Provision for impairment loss of prepayments deposits and other receivables, net	(11)	(1,855)	-	-	(1,866)

	PC steel bar HK\$'000	PHC piles and others HK\$'000	Financial services HK\$'000	Corporate/ unallocated HK\$'000	Total HK\$'000
<b>For the six months ended 30 June 2017</b>					
Other segment information:					
Capital expenditure	-	(33)	(582)	-	(615)
Depreciation	10	(8,577)	(239)	(188)	(8,994)
Amortisation of prepaid land lease payments	-	(270)	-	-	(270)
Provision for impairment loss of trade receivables, net	-	(2,535)	-	-	(2,535)
Provision for impairment loss of prepayments, deposits and other receivables, net	-	44	-	-	44

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 3. OPERATING SEGMENT INFORMATION (Continued)

### (c) Geographical information

The geographical location of revenue information is based on the locations of customers at which the goods delivered or the locations of service provided. The Group's revenue analysed by geographical location and information about its non-current assets by geographical location are detailed below:

	Non-current assets		Revenue	
	As at		Six months ended	
	30 June 2018 HK\$'000	31 December 2017 HK\$'000	30 June 2018 HK\$'000	30 June 2017 HK\$'000
Hong Kong	40,153	36,582	5,662	5,009
The PRC (Note)	113,028	127,756	194,525	136,619
	<u>153,181</u>	<u>164,338</u>	<u>200,187</u>	<u>141,628</u>

Note: excluding Hong Kong for the purpose of this report.

### (d) Information about major customers

For the six months ended 30 June 2018, the Group had transactions with one customer, which contributed over 8% of the Group's total revenue. The total revenue earned from this customer amounting to HK\$17,779,000. For the six months ended 30 June 2017, the total revenue earned from this customer amounting to HK\$16,286,000.

## 4. REVENUE

Revenue, represents the net invoiced value of goods sold, after allowances for return and trade discounts, and interest on loans to customers during the period.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 5. OTHER GAINS AND LOSSES

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
Exchange difference, net	(1,641)	3,533
Net loss arising on financial assets at fair value through profit or loss	(442)	(3,077)
Provision for impairment loss of trade receivables, net	(4,653)	(2,535)
Provision for impairment loss of prepayments, deposits and other receivables, net	(1,866)	44
Loss on disposal of property, plant and equipment	(2,826)	–
Over-provision of penalty and fine	6,274	–
	<u>(5,154)</u>	<u>(2,035)</u>

## 6. FINANCE COSTS

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
Interest on bank borrowings	1,633	1,396
Interest on bond	55	–
	<u>1,688</u>	<u>1,396</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 7. PROFIT/(LOSS) BEFORE TAX

Profit/(Loss) before tax is arrived at after charging/(crediting):

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
Amortisation of prepaid land lease payments	294	270
Depreciation	10,319	8,994
Cost of inventories sold	100,059	79,016
Operating lease payments in respect of land and buildings	<u>2,325</u>	<u>2,946</u>
Staff costs (including directors' remuneration):		
– Salaries, bonuses and allowances	18,083	16,483
– Retirement benefits scheme contributions	1,206	1,169
– Reversal of provision for long service payment, net	<u>(2)</u>	<u>(12)</u>
	<u><u>19,287</u></u>	<u><u>17,640</u></u>

## 8. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made during the period (six months ended 30 June 2017: Nil) as the Group did not generate any assessable profits arising in Hong Kong. Subsidiaries established in the PRC are subject to the PRC Enterprise Income Tax at the standard rate of 25% (six months ended 30 June 2017: 25%).

	Six months ended	
	30 June 2018 HK\$'000 (Unaudited)	30 June 2017 HK\$'000 (Unaudited)
Current tax — PRC Enterprises Income Tax		
– Current tax for the period	5,798	4,367
– Over-provision in prior years	<u>(1,298)</u>	<u>(550)</u>
	<u>4,500</u>	<u>3,817</u>
Deferred tax	<u>(2,467)</u>	<u>(779)</u>
	<u><u>2,033</u></u>	<u><u>3,038</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 9. DIVIDEND

No dividend was paid or proposed during the period, nor has any dividend been proposed since the end of the reporting period (30 June 2017: Nil).

## 10. LOSS PER SHARE

Basic loss per share amount is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue throughout the period.

	<b>Six months ended</b>	
	<b>30 June 2018 HK\$'000 (Unaudited)</b>	30 June 2017 HK\$'000 (Unaudited)
<b>Loss:</b>		
Loss for the period attributable to owners of the Company used in the basic loss per share calculation	<b>(4,712)</b>	(8,807)
	<b>'000</b>	'000 (Restated)
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of calculating basis loss per share	<b>628,686</b>	470,122

For the six months ended 30 June 2018 and 30 June 2017, no adjustment has been made to the basic loss per share amounts presented, as the effects of all convertible notes and share options are anti-dilutive.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share in respect of all the movements of the issued shares, including placing of shares and shares repurchased and cancelled has been retrospectively adjusted for share consolidation on 4 June 2018.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 11. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired the property, plant and equipment of approximately HK\$457,000 (30 June 2017: HK\$615,000).

## 12. TRADE AND BILL RECEIVABLES

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Trade receivables, gross	<b>278,554</b>	280,371
Less: provision for impairment loss	<b>(57,678)</b>	(53,868)
Trade receivables, net	<b>220,876</b>	226,503
Bill receivables	<b>2,726</b>	3,420
	<b>223,602</b>	229,923

### (a) Ageing analysis

The Group's trading terms with its customers are mainly on credit except for new customers, where payment in advance is normally required. For trade receivables resulted from sales of goods and services, the credit period is generally for one to three (31 December 2017: one to three) months from the date of billing, except for certain well-established customers, where the terms are extended to six months. For trade receivables resulted from loans granted, the loan period is generally three to twelve (31 December 2017: three to twelve) months from the date of inception or renewal. The Group seeks to maintain strict control over its receivables to minimise credit risk.

As at 30 June 2018, except for the receivables from loans to customers of HK\$141,965,000 (31 December 2017: HK\$135,270,000) which bore fixed interest rates ranging from 8% to 10% per annum and were secured with charges over the assets owned by the borrowers and/or personal guarantees, trade receivables are non-interest bearing.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 12. TRADE AND BILL RECEIVABLES (Continued)

### (a) Aging analysis (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date or the date of inception or renewal for loans and net of provision, is as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 3 months	<b>73,786</b>	97,829
4 to 6 months	<b>14,118</b>	74,762
7 to 12 months	<b>77,964</b>	38,373
Over 12 months	<b>55,008</b>	15,539
	<b>220,876</b>	226,503

### (b) Impairment of trade receivables

The movement in provision for impairment of trade receivables is as follows:

	<b>Six months ended 30 June 2018 HK\$'000 (Unaudited)</b>
Balance at beginning of the period	<b>53,868</b>
Impairment loss recognised	<b>9,064</b>
Impairment loss reversed	<b>(4,411)</b>
Exchange realignment	<b>(843)</b>
Balance at end of the period	<b>57,678</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 12. TRADE AND BILL RECEIVABLES (Continued)

### (c) Trade receivables that are not impaired

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Neither past due nor impaired	<b>158,258</b>	181,523
Within 3 months past due	<b>40,733</b>	11,306
4 to 6 months past due	<b>4,223</b>	19,835
7 to 12 months past due	<b>17,662</b>	8,300
Over 12 months past due	–	5,539
	<b>220,876</b>	226,503

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Prepayments	193,715	158,577
Refundable deposits paid for acquisition of subsidiaries	106,637	106,637
Other receivables	31,555	31,303
Less: Provision for impairment loss	<b>(85,597)</b>	<b>(84,918)</b>
	<hr/>	<hr/>
Deposits paid	246,310 2,568	211,599 3,891
	<hr/>	<hr/>
	<b>248,878</b>	<b>215,490</b>

## 14. TRADE PAYABLES

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Trade payables	<b>34,019</b>	<b>25,567</b>

An ageing analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 3 months	24,164	17,045
4 to 6 months	546	556
7 to 12 months	-	2,060
Over 1 year	<b>9,309</b>	5,906
	<hr/>	<hr/>
	<b>34,019</b>	<b>25,567</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 14. TRADE PAYABLES (Continued)

The trade payables are non-interest bearing and the average credit terms received from suppliers of the Group is 30 days (31 December 2017: 30 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 15. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<b>Authorised:</b>		
As at 1 January 2017 and 31 December 2017, ordinary shares of HK\$0.01 each	<b>100,000,000,000</b>	1,000,000
Share consolidation (Note (a))	<b><u>(90,000,000,000)</u></b>	<u>–</u>
As at 30 June 2018, ordinary shares of HK\$0.1 each	<b><u>10,000,000,000</u></b>	<b><u>1,000,000</u></b>
<b>Issued and fully paid:</b>		
As at 1 January 2017, ordinary shares of HK\$0.01 each	<b>4,484,203,246</b>	44,842
Placing of shares (Note (b))	<b><u>1,942,880,000</u></b>	<u>19,429</u>
As at 31 December 2017, ordinary shares of HK\$0.01 each	<b>6,427,083,246</b>	64,271
Shares repurchased and cancelled (Note (c))	<b><u>(185,720,000)</u></b>	<u>(1,858)</u>
Share consolidation (Note (a))	<b><u>(5,617,226,922)</u></b>	<u>–</u>
As at 30 June 2018, ordinary shares of HK\$0.1 each	<b><u>624,136,324</u></b>	<b><u>62,413</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 15. SHARE CAPITAL (Continued)

Notes:

### (a) Share consolidation

On 4 June 2018, the ordinary shares of the Company was consolidated on the basis of every ten (10) issued and unissued existing shares of a par value of HK\$0.01 each in the share capital of the Company be consolidated into one (1) consolidated share of a par value of HK\$0.10 each in the share capital of the Company.

### (b) Placing of shares

On 26 April 2017, the Company entered into a placing agreement with a placing agent in respect of the placement of 872,880,000 ordinary shares of HK\$0.01 each to independent investors at a price of HK\$0.086 per share. The placement was completed on 17 May 2017 and the premium on the issue of shares amounting to approximately HK\$64,381,000, after net of share issue expenses of approximately HK\$81,000, was credited to the Company's share premium account.

On 18 September 2017, the Company entered into a placing agreement with a placing agent in respect of the placement of 1,070,000,000 ordinary shares of HK\$0.01 each to independent investors at a price of HK\$0.097 per share. The placement was completed on 13 October 2017 and the premium on the issue of shares amounting to approximately HK\$89,248,000, after net of share issue expenses of approximately HK\$210,000, was credited to the Company's share premium account.

### (c) Shares repurchased and cancelled

During the period from 19 January 2018 to 6 February 2018, the Company repurchased 185,720,000 ordinary shares on the Stock Exchange, pursuant to the general mandate granted by the shareholders of the Company to the Board, at a total consideration of HK\$9,957,000 (before brokerage and expenses in the amount of HK\$57,000). The highest and the lowest purchase prices per share were HK\$0.058 and HK\$0.050 respectively. 145,120,000 and 40,600,000 repurchased shares were cancelled on 8 February 2018 and 9 March 2018 respectively. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 16. RELATED PARTY TRANSACTIONS

Details of transactions between the Group and other related parties, save as disclosed elsewhere in the condensed consolidated financial statements, are as follows:

### (a) Outstanding balances with related parties

The amount due to a non-controlling shareholder is unsecured, interest-free and repayable on demand.

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Amount due to a non-controlling shareholder of a subsidiary	<u><u>514</u></u>	<u><u>521</u></u>

### (b) Compensation of key management personnel of the Group

The directors of the Company are the key management personnel of the Group. Details of the directors' emoluments during the period are as follows:

	<b>Six months ended</b>	
	<b>30 June 2018 HK\$'000 (Unaudited)</b>	30 June 2017 HK\$'000 (Unaudited)
Fees	480	373
Other emoluments:		
– Salaries and allowances	1,722	1,644
– Retirement benefits scheme contributions	36	36
– Reversal of provision for long service payment, net	(2)	(12)
	<u><u>2,236</u></u>	<u><u>2,041</u></u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

## 16. RELATED PARTY TRANSACTIONS (Continued)

### (c) Guarantees provided by related parties

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Guarantees of interest-bearing borrowings provided by:		
Directors and shareholders of a subsidiary	44,067	44,137
A related company of a subsidiary	44,067	44,137
A non-controlling shareholder of a subsidiary	<u>44,067</u>	<u>44,137</u>

## 17. COMMITMENTS

### Lease commitments

The Group leases certain of its office premises under operating lease arrangements. Leases for the office premises are negotiated for one to three (31 December 2017: one to three) years.

As at 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
– Within one year	5,065	2,108
– In the second to fifth years inclusive	<u>9,811</u>	<u>155</u>
	<u>14,876</u>	<u>2,263</u>



# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF RESULTS AND OPERATIONS

### Construction Materials Business

Construction Materials Business consisted of the pre-stressed high-strength concrete piles and others business (the “PHC Pile and Others Business”) and the pre-stressed steel bars business (the “PC Steel Bar Business”).

### PHC Pile and Others Business

PHC Pile and Others Business are operated by a subsidiary of the Company, 廣東恆佳建材股份有限公司 (Guangdong Hengjia Building Materials Co., Ltd\*, “Guangdong Hengjia”) and its production factory is situated in Yangjiang City, Guangdong Province, the People’s Republic of China (the “PRC”). Guangdong Hengjia sells its products to customers located in Yangjiang City and its surrounding cities in Guangdong Province.

Revenue from the PHC Pile and Others Business represented sales of pre-stressed high strength concrete pile, ready-mixed concrete and bricks which contributed approximately 46%, 41% and 13% respectively (six months ended 30 June 2017 (“FP2017”): approximately 47%, 38% and 15%) to the revenue of PHC Pile and Others Business. The total revenue of the Group for the six months ended 30 June 2018 (“FP2018”) was mainly generated from the PHC Pile and Others Business.

Revenue from external customers for FP2018 was HK\$194,525,000 compared with HK\$136,619,000 reported in FP2017, which increased by approximately 42.4%. The increase in revenue for FP2018 was mainly attributable to the rise in sales of pre-stressed high strength concrete pile and ready-mixed concrete. PHC Pile and Others Business contributed approximately 97.2% and 96.5% to the total revenue of the Group for FP2018 and FP2017 respectively.

The operations of the PHC Pile and Others Business for FP2018 remained profitable. The segment profit for FP2018 was HK\$17,102,000 as compared with HK\$11,725,000 reported in FP2017.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

### PC Steel Bar Business

PC Steel Bar Business is operated by a subsidiary of the Company, Zhuhai Hoston Special Materials Co., Ltd. (“Zhuhai Hoston”) and its production factory is situated in Zhuhai City, Guangdong Province, the PRC (the “Zhuhai Factory”). The operation of the Zhuhai Factory has been suspended since 1 January 2016.

PC Steel Bar Business did not generate revenue during FP2018. Expenses incurred during FP2018 were mainly legal and professional fees and staff costs for the Zhuhai Factory. Segment profit for FP2018 was HK\$5,590,000, which was arisen from the over-provision of penalty and fine in previous years, as compared with segment loss of HK\$909,000 reported in the FP2017.

### Financial Services Business

Financial Services Business consisted of money lending, provision of asset management services, advising on securities services and securities brokerage services in Hong Kong.

Money lending business contributed HK\$5,662,000 to the revenue of the Group during FP2018 compared with HK\$5,009,000 reported in FP2017, which increased by approximately 13.0% and represented interest income from loans granted to customers.

### Other gains and losses, net

Other gains and losses, net for FP2018 amounted to HK\$5,154,000 (FP2017: HK\$2,035,000), represented an increase of 153.3%. Such increase was mainly due to the increase in net provision for impairment loss of trade receivables and loss on disposal of property, plant and equipment. Other gains and losses, net for FP2018 consisted of net exchange loss of HK\$1,641,000, net provision for impairment loss of trade receivables of HK\$4,653,000, net loss arising on financial assets at fair value through profit or loss of HK\$442,000, net provision for impairment of prepayments, deposits and other receivables of HK\$1,866,000, over-provision of penalty and fine of HK\$6,274,000 and loss on disposal of property, plant and equipment of HK\$2,826,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Selling and distribution expenses

Selling and distribution expenses for FP2018 amounted to HK\$28,492,000 (FP2017: HK\$12,021,000), represented an increase of 137.0%. The increase in selling and distribution expenses for FP2018 was mainly due to the increase in sales revenue which results in increasing transportation costs accordingly, and the increase in the price charged by the transportation providers which in turn led to the higher transportation costs. Selling and distribution expenses for FP2018 mainly comprised of transportation costs of HK\$27,188,000 and salaries for the salespersons of HK\$905,000.

### Administrative expenses

Administrative expenses for FP2018 amounted to HK\$23,027,000 (FP2017: HK\$22,851,000), representing an increase of 0.8%, which was mainly due to the increase in legal and professional fees. Administrative expenses for FP2018 mainly comprised of salaries and other benefits (including directors' remuneration) of HK\$8,710,000 and legal and professional fees of HK\$9,266,000.

### Finance costs

Finance cost for FP2018 amounted to HK\$1,688,000 (FP2017: HK\$1,396,000), representing an increase of 20.9%, which was due to the increase in bank loan interest and the interest for bond issued during FP2018. Finance costs for FP2018 were interest expenses for the bank borrowings of HK\$1,633,000 and interest expenses for bond of HK\$55,000.

### Profit before tax

Profit before tax was HK\$2,810,000 for FP2018 compared with loss before tax of HK\$2,964,000 reported in FP2017. It was mainly due to the increase in revenue and gross profit for FP2018 as compared with those reported in FP2017. The revenue for FP2018 was HK\$200,187,000 compared with HK\$141,628,000 reported in FP2017, which increased by 41.3%. The gross profit for FP2018 was HK\$55,622,000 compared with HK\$34,729,000 reported in FP2017, which increased by 60.2%. The gross profit ratio also increased from 24.5% in FP2017 to 27.8% in FP2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

### LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations with equity fund raising activities, internally generated cash flow, banking facilities provided by its principal bankers in the PRC and bond issued to independent third parties. As at 30 June 2018, the total shareholders' equity of the Group was HK\$575,079,000, representing a decrease of approximately 2.1% as compared with that as at 31 December 2017. As at 30 June 2018, the Group's cash and cash equivalents stood at HK\$51,285,000 which were denominated in Hong Kong Dollar and Renminbi whereas interest-bearing borrowings were HK\$44,067,000. The annual interest rates of the borrowings for FP2018 ranged from 4.785% to 8.12% per annum. Approximately 57.2% of the total borrowings were accounted for as current liabilities of the Group. The above borrowings were denominated in Hong Kong Dollar and Renminbi. During FP2018, the Group did not use any financial instruments for any hedging purposes. The gearing ratio, which was computed by dividing the current liabilities and non-current liabilities by equity, was approximately 23.9% as at 30 June 2018.

### SIGNIFICANT INVESTMENT AND ACQUISITION

The Group has no significant investment and acquisition during FP2018.

### CAPITAL STRUCTURE

#### Convertible Notes

As at 30 June 2018, the Company had convertible notes with principal amount of HK\$30,000,000. Based on the opinions obtained from the legal adviser of the Company, in view of the on-going legal proceedings mentioned under the paragraph headed "Legal Proceedings" in this report, the Company maintains the position that all remaining convertible notes of the Company are void and are not capable of converting into shares of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### On-market Share Repurchase

During the period from 19 January 2018 to 6 February 2018, the Company repurchased an aggregate of 185,720,000 ordinary shares of HK\$0.01 each (before the share consolidation takes effect on 4 June 2018) in the share capital of the Company respectively (representing approximately 2.91% of the entire issued Shares) on the Stock Exchange pursuant to the general mandate to repurchase Shares granted by the shareholders of the Company to the Board at the annual general meeting of the Company held on 6 June 2017. The highest purchase price per Share was HK\$0.058 and the lowest purchase price per Share was HK\$0.050, and an aggregate of HK\$9,957,000 (before brokerage and expenses) was utilized by the Company for such repurchases. The Company has cancelled an aggregate of 145,120,000 and 40,600,000 of the repurchased Shares on 8 February 2018 and 9 March 2018, respectively. Details of the aforesaid shares repurchases were disclosed in the Company's announcement dated 19 January 2018, and the Next Day Disclosure Return dated from 19 January 2018 to 9 March 2018.

### Share Consolidation

As disclosed in the Company's announcement dated 18 April 2018, the Board proposed to put forward to the shareholders of the Company (the "Shareholders") a proposal of the share consolidation (the "Share Consolidation") on the basis that every ten (10) issued and unissued existing shares of a par value of HK\$0.01 each in the share capital of the Company be consolidated into one (1) consolidated share of a par value of HK\$0.10 each in the share capital of the Company (the "Proposed Resolution"). The Proposed Resolution was duly passed by the Shareholders by way of poll at the special general meeting of the Company held on 1 June 2018. All the conditions precedent of the Share Consolidation have been fulfilled and the Share Consolidation has become effective on 4 June 2018. The board lot size for trading on the Stock Exchange will remain as 20,000 shares. Details of the Share Consolidation were disclosed in the Company's announcements dated 18 April 2018, 8 May 2018, 10 May 2018 and 1 June 2018 and the circular of the Company dated 10 May 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Rights Issue and its Termination

On 28 June 2018 (after trading hours), the Company entered into the underwriting agreement with Kingston Securities Limited and Business Century Investments Limited (collectively, the “Underwriters”) with respect to the rights issue (the “Underwriting Agreement”). The Company proposed to implement the rights issue on the basis of one (1) rights share (the “Rights Share”) for every two (2) existing shares in issue and held on the Record Date (being 23 July 2018) by issuing not less than 312,068,162 Rights Shares at the subscription price of HK\$0.188 per Rights Share and not more than 325,458,162 Rights Shares (assuming all the share options granted under the share option scheme of the Company having been exercised in full, but there is no other changes in the issued share capital of the Company from the date of the announcement of the Company dated 28 June 2018 up to and including the Record Date). On 25 July 2018 (after trading hours), under the Company’s then circumstances, the Company and the Underwriters mutually agreed to terminate the Underwriting Agreement. As a result of the termination, all of the terms and conditions of the Underwriting Agreement shall cease to have any further effect and each of the parties to the Underwriting Agreement shall be released from all obligations under the Underwriting Agreement with effect from 25 July 2018. Accordingly, the Rights Issue did not proceed. Details of the Rights Issue and its termination were disclosed in the Company’s announcements dated 28 June 2018 and 25 July 2018 and the prospectus of the Company in relation to the Rights Issue dated 24 July 2018.

## Share Options

In accordance with the share options scheme approved and adopted by the Company on 17 June 2016 (the “Share Option Scheme”), on 22 June 2016, the Company granted options to certain directors, employees, substantial shareholders and consultants of the Group to subscribe for a total of 436,200,000 ordinary shares of HK\$0.01 each in the capital of the Company on or before 21 June 2026 at an exercise price of HK\$0.1682 per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

On 4 June 2018 on which the Share Consolidation became effective, the exercise prices and the number of consolidated Shares to be issued upon exercise of the outstanding share option were adjusted to HK\$1.682 and 26,780,000 Shares respectively in accordance with the terms and conditions of the Share Option Scheme, Rule 17.03(13) of the Listing Rules and the supplementary guidance dated 5 September 2005 issued by the Stock Exchange. No share options were granted, exercised, cancelled or lapsed during FP2018.

### Further Change in Use of Proceeds

As disclosed in the announcement of the Company dated 24 November 2017 and the annual report of the Company for the year ended 31 December 2017, the Board intended to allocate the net proceeds (the “Net Proceeds”) from the placing of approximately HK\$73.10 million as to: (a) approximately HK\$30.20 million for the development of financial services business; (b) approximately HK\$8.50 million for general working capital of the Group; and (c) approximately HK\$34.40 million for the Acquisitions (as defined in the announcement of the Company dated 21 November 2017) (the “Proceeds for Intended Acquisitions”). As disclosed in the announcement of the Company dated 6 February 2018, the parties to the Acquisitions had been engaging in further negotiations.

In view of the above circumstances, as disclosed in the announcement of the Company dated 26 July 2018, the Board had resolved: (a) to apply part of the Proceeds for Intended Acquisitions in the sum of approximately HK\$12.54 million towards the development of financial services business; (b) to apply part of the Proceeds for Intended Acquisitions in the sum of approximately HK\$5.1 million towards general working capital; and (c) to apply the remaining part of the Proceeds for Intended Acquisitions in the sum of approximately HK\$9.96 million towards Share buyback.

### PLEDGE OF ASSETS

As at 30 June 2018, the Group's certain buildings of HK\$36,010,000, certain prepaid land lease payments of HK\$23,425,000 and certain plant and machinery of HK\$3,358,000 were used to secure banking facilities for the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had approximately 380 full-time management, administrative, technical and production staff in the PRC and Hong Kong. Their remuneration, promotion and salary review are assessed based on job responsibilities, work performance, professional experiences and the prevailing industry practice. The Group's Directors and employees in Hong Kong joined the Mandatory Provident Fund Scheme. Other staff benefit includes share options granted or to be granted under the Share Option Scheme.

### FOREIGN EXCHANGE AND CURRENCY RISKS

The Group's monetary assets, liabilities and transactions are principally denominated in Renminbi ("RMB") and Hong Kong Dollars ("HKD"). The Group, with HKD as its presentation currency, is exposed to foreign currency risk arising from the exposure of HKD against RMB. The Group has a net exchange exposure to RMB as the Group's assets are principally located in the PRC. The Group manages and monitors foreign exchange exposures to ensure appropriate measures are implemented in a timely and effective manner.

### COMMITMENTS

Save as disclosed in Note 17 of the Notes to the Condensed Consolidated Financial Statements, the Group did not have material commitments as at 30 June 2018 (31 December 2017: Nil).

### CONTINGENT LIABILITIES

As at 30 June 2018 and 31 December 2017, the Company did not have any material contingent liabilities.



## MANAGEMENT DISCUSSION AND ANALYSIS

### EVENT AFTER THE REPORTING PERIOD

On 24 July 2018, officers of the Independent Commission Against Corruption of Hong Kong (the “ICAC”) visited the Company’s principal place of business in Hong Kong to execute a search warrant, which required the Company to provide certain information in relation to a very substantial acquisition involving Joint Expert Global Limited and its subsidiaries which was completed in 2014. Mr. Leung Chi Fai (“Mr. Leung”), an executive director and the then company secretary of the Company was arrested by the ICAC. On 27 July 2018 and 31 July 2018, in view of the ICAC investigation, Mr. Leung voluntarily requested the Group for the suspension of his executive duties as the executive director, and resigned as the company secretary, and a member of each of the remuneration committee and nomination committee of the Company, and an authorised representative of the Company under Rule 3.05 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Save as disclosed above, none of the member of the Group or its employees is a subject of the ICAC investigation. The ICAC investigation will not have any material adverse effect on the Group and the business and operations of the Group remain normal. The Group has sufficient working capital to meet its present operational requirements. Mr. Leung has been released on bail without being charged and he continues to assist in the ICAC investigation. For details, please refer to the Company’s announcements dated 24 July 2018, 27 July 2018 and 31 July 2018.

Save as disclosed above and in the paragraphs headed “Capital Structure – Rights Issue and its Termination” and “Capital Structure – Further Change in Use of Proceeds” in this report, the Group has no other material event after 30 June 2018 and up to the date of this report that needs to be disclosed.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT

The construction of the new economic belt in PRC will continue to heat up, and there will still be room for development in the domestic infrastructure market in the next few years, providing more market opportunities for related companies. However, the industry is also facing new challenges and adverse conditions. In recent years, the building materials industry has been affected by unfavorable factors such as rising raw material prices, market situation changes and intensified competition among peers. The future competition of the industry is largely reflected in the all-round business competition. In view of the above, the Group has been committed to diversifying its business and has been expanding its market presence and deepening its business experience in 2016 to expand the business scale of the Group.

On 12 September 2017, Sunway New Energy Industry Group Limited, a direct wholly-owned subsidiary of the Company, has entered into a memorandum of understanding (as supplemented) in relation to the possible acquisition of the entire issued share capital of Sino New Energy International Limited (中國超燃能源國際有限公司) (the “Target”), subject to the entering into of the formal agreement. The Target owns 51% of the equity interest in 陝西燃超能源科技有限公司 (Shaanxi Ranchao Energy Technology Company Limited\*) (“Shaanxi Ranchao”), a Sino-foreign equity joint venture company established in the PRC, and the other 49% of the equity interest in Shaanxi Ranchao is owned by 自貢市翠瑾商貿有限公司 (Zigong Cui Jin Commerce Company Limited\*), a company incorporated in the PRC. Shaanxi Ranchao is principally engaged in the business of supplying piped gas to residential households, commercial and industrial users in certain districts in the PRC and certain refueling stations in those districts in the PRC. For details, please refer to the announcements of the Company dated 12 September 2017, 10 October 2017 and 25 April 2018. As at 30 June 2018, this possible acquisition was under the due diligence process and formal agreement has not been entered into.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

Golden Elements Limited, a direct wholly-owned subsidiary of the Company, has entered into a memorandum of understanding (as supplemented) with Gold State Enterprises Limited (the “JV Partner”) in relation to the possible setting up of a joint venture between Golden Elements Limited and the JV Partner for principally engaging in the development of land situated in Ho Chi Minh City and/or Hanoi, Vietnam, subject to the entering into of the formal joint venture agreement. For details, please refer to the announcements of the Company dated 16 October 2017 and 23 April 2018. As at 30 June 2018, this possible joint venture was under the due diligence process.

### **UPDATES ON DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

With effect from 31 July 2018, Mr. Lam Kai Yeung has been re-designated from an independent non-executive Director to an executive Director.

With effect from 31 July 2018, Mr. Ng Yuk Lam has been appointed as an independent non-executive Director.

With effect from 3 August 2018, Mr. Liu Chenli has resigned as a non-executive Director.

For details of the above changes, please refer to the announcements of the Company dated 31 July 2018 and 3 August 2018.

Save as disclosed above, upon specific enquiry by the Company and based on the confirmation from the Directors, there is no change in the information of the Directors required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules for the six months ended 30 June 2018 and up to the date of this report.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LEGAL PROCEEDINGS

As at the date of this report, the Group was involved in the following legal proceedings:

### The Company/its subsidiary as the defendant

- (a) Pursuant to a civil ruling dated 13 July 2016 issued by 廣東省珠海市香洲區人民法院 (Guangdong Zhuhai Xiangzhou People's Court)\* (the "Xiangzhou People's Court"), 70% equity interest of Zhuhai Hoston in Guangdong Hengjia was charged to 珠海市中小企業融資擔保有限公司 (Zhuhai Small & Medium Enterprises Financing Guarantee Co., Ltd) ("Zhuhai Small & Medium Enterprises") as security for the debt owned to Zhuhai Small & Medium Enterprises. In view of the full and final settlement of the claim by Zhuhai Small & Medium Enterprises, the management of Zhuhai Hoston will apply to the court to release the said charge.
- (b) References are made to the Company's announcements dated 5 February 2016, 14 March 2017 and 4 September 2017 in relation to an action commenced by Liu Qian (劉倩) ("Ms. Liu") as the plaintiff against the Company as the defendant in the Court of First Instance of the High Court of Hong Kong (the "Court of First Instance") on 3 February 2016 (the "Action"). On 13 March 2017, upon the application of Ms. Liu and after the substantive hearing of the application on 27 February 2017, the Court of First Instance entered summary judgment against the Company with damages to be assessed (the "Summary Judgment"). The Company filed an appeal against the Summary Judgment on 7 April 2017 (the "Appeal") and the substantive hearing of the Appeal was heard in the Court of Appeal of the High Court of Hong Kong (the "Court of Appeal") on 22 August 2017 with judgment reserved. On 1 September 2017, the Court of Appeal allowed the Appeal, set aside the Summary Judgment and granted the Company unconditional leave to defend the Action. There has been no progress in the Action since the Appeal.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

(c) References are made to the announcements of the Company dated 11 November 2016, 15 December 2017 and the Annual Report 2017 in relation to the civil complaints involving Zhuhai Hoston.

(i) Zhuhai Hoston received civil rulings on 10 April 2017 and 12 April 2017 and was to assume responsibility for half of the outstanding personal loans of RMB1,000,000.00 and RMB3,500,000.00, owing by Wang Tian (王天) to Wu Min (吳敏) and Kou Jinshui (寇金水), respectively, and the respective interests thereon and the legal costs. Zhuhai Hoston has filed appeals against these civil rulings.

According to the civil rulings dated 24 October 2017 and 22 January 2018 on appeals respectively, the Zhuhai Intermediate People's Court revised the principal amount of the loan to RMB839,314.00 as owing by Wang Tian (王天) to Wu Min (吳敏) and RMB2,378,174.00 as owing to Kou Jinshui (寇金水). Apart from these alterations, the Zhuhai Intermediate People's Court did not allow the appeal and confirmed the aforementioned civil rulings dated 10 April 2017 and 12 April 2017.

(ii) Upon the respective applications of Kou Jinshui (寇金水) and 珠海河川商貿有限公司 (Zhuhai Hechuan Commercial and Trade Co., Ltd.)\* ("Zhuhai Hechuan"), three bank accounts of Zhuhai Hoston and 70% equity interest of Zhuhai Hoston in 廣東恒佳建材股份有限公司 (Guangdong Hengjia Building Materials Co., Ltd)\* ("Guangdong Hengjia") were suspended/impounded by the Xiangzhou People's Court pursuant to an execution order dated 27 December 2016.

Zhuhai Hoston received a civil ruling on 13 April 2017 in relation to disputes over private lending pursuant to a lending contract dated 6 April 2013 entered into between Zhuhai Hoston as the borrower and Zhuhai Hechuan as the lender (the "Dispute"), that the said lending has been fully settled by Zhuhai Hoston already and Zhuhai Hoston was not liable to any repayment of the loan and the respective interest thereon to Zhuhai Hechuan.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

On 8 September 2017, Zhuhai Hechuan filed an appeal at the Zhuhai Intermedia People's Court. By a civil ruling on 22 January 2018, Zhuhai Intermediate People's Court allowed the appeal, reversed the aforementioned civil ruling dated 13 April 2017 and ordered that the case be remitted back to the Xiangzhou People's Court for a re-trial.

On 7 June 2018, the Xiangzhou People's Court had conducted a re-trial of the Dispute and made a civil ruling as follows: (1) Zhuhai Hoston shall be liable to pay the outstanding loan in the principal amount of RMB2,000,000 to Zhuhai Hechuan; and (2) Zhuhai Hoston shall be liable to pay to the Zhuhai Hechuan the default interest at the rate of 24% per annum on the principal amount of RMB2,000,000 within ten days from the date of the civil ruling (i.e. from 1 January 2015 up to the actual repayment date of the principal amount).

On 16 August 2018, Zhuhai Hoston filed an appeal at the Zhuhai Xiangzhou People's Court for the ruling. Taking into consideration the fact that the amount of the judgment debt involved is not significant, the Company considers that the civil ruling of the Dispute is unlikely to have any material adverse operational and financial impact on the Group.

- (d) Reference is made to the announcement of the Company dated 15 December 2017 in relation to the outstanding claims against Zhuhai Hoston:
- (i) As of 20 November 2017, Zhuhai Hoston was indebted to Guangdong Hengjia for a total sum of RMB34,772,335.50 (the "Guangdong Hengjia Debt").

Zhuhai Hoston received an execution order dated 21 November 2017 made by 陽江市江城區人民法院 (Yangjiang Jiangcheng People's Court)\* ("Yangjiang Jiangcheng People's Court") on the application of Guangdong Hengjia to seize certain tools and equipment of Zhuhai Hoston (the "Seized Tools and Equipment") for a period of 2 years as security for the debt owed by Zhuhai Hoston to Guangdong Hengjia.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

Zhuhai Hoston received an auction notice dated 6 February 2018 issued by the Yangjiang Jiangcheng People's Court that the Seized Tools and Equipment would be listed for auction from 9 March 2018 to 10 March 2018. The Company was informed by Zhuhai Hoston that the Seized Tools and Equipment were not sold at the auction.

On 27 March 2018, Yangjiang Jiangcheng People's Court ordered that after Guangdong Hengjia has paid RMB50,000 and the respective valuation and enforcement fees, the Seized Tools and Equipment at the auction reserve price of RMB2,666,544 was applied to settle part of the Guangdong Hengjia Debt of RMB2,570,744 whereas Zhuhai Hoston was still liable for the remaining amount of the Guangdong Hengjia Debt. After applying the Seized Tools and Equipment as partial settlement, Zhuhai Hoston is indebted to Guangdong Hengjia for a total sum of RMB32,201,591.50.

- (ii) Upon the applications of 佛山市南海信通物資有限公司 (Foshan Nanhai Xintong Materials Co., Ltd) ("Foshan Nanhai"), a bank account of Zhuhai Hoston, certain tools and 70% equity interest of Zhuhai Hoston in Guangdong Hengjia were suspended, seized and impounded by 廣東省佛山市南海區人民法院 (Guangdong Foshan Intermediate People's Court)\* (the "Foshan Intermediate People's Court") pursuant to an execution order made on 4 August 2015, list of seized properties dated 12 August 2015 and an execution notice dated 17 August 2015 respectively.

By an assignment of loan executed between 陽江市博信商貿有限公司 (Yeungkong Boxin Trading Co., Ltd)\* ("Yeungkong Boxin") and Foshan Nanhai, Foshan Nanhai assigned a debt of RMB414,698.55 plus interests owed by Zhuhai Hoston to Yeungkong Boxin (the "Assignment"). In addition to a loan of RMB1,576,225.80 between Yeungkong Boxin as the lender and Zhuhai Hoston as the borrower Zhuhai Hoston is indebted to Yeungkong Boxin for a total sum of RMB2,182,047.44.

Since Foshan Nanhai has not notified the Foshan Intermediate People's Court of the Assignment, the records of the Foshan Intermediate People's Court are still showing Foshan Nanhai as the creditor of Zhuhai Hoston. In view of the Assignment, the management of Zhuhai Hoston will apply to the court to update the records.

\* for identification purpose only

## MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) By a civil mediation agreement dated 16 October 2017 entered into between Zhuhai Hoston and 特潤絲(天津)化學有限公司 (Terunsi (Tianjin) Chemical Co., Ltd)\* (“Terunsi”) and endorsed by the Doumen People’s Court, Zhuhai Hoston agreed to pay Terunsi a total sum of RMB71,400.00 as overdue trade payable and RMB793.00 as court fees. On the same date, Doumen People’s Court issued a civil ruling against Zhuhai Hoston and ordered that an amount of RMB71,400.00 in a bank account held by Zhuhai Hoston be suspended for one year.

Terunsi applied to the Yangjiang Jiangcheng People’s Court to request for the Seized Tools and Equipment to settle the overdue trade payable. As disclosed in paragraph (d)(i) above, on 27 March 2018, the Yangjiang Jiangcheng People’s Court confirmed the payment of RMB50,000 from Guangdong Hengjia to Terunsi as full and final settlement of the claim.

### **The Company/its subsidiary as the plaintiff**

- (e) By a Generally Indorsed Writ of Summons dated 23 June 2015 and Statement of Claim dated 18 August 2015 issued by the Company and First Billion Global Limited, a wholly-owned subsidiary of the Company (collectively, the “Plaintiffs”) against Xiao Guang Kevin (蕭光) (“Mr. Xiao”) and Wang Zhining (王志寧) (“Mr. Wang”) (collectively, the “Defendants”), the vendor and the guarantor, respectively, all of whom are parties to a very substantial acquisition of the Company (the “VSA”) as announced by the Company in its announcement dated 30 January 2014 and its circular dated 31 March 2014, the Plaintiffs claim that the Defendants have fundamentally breached the terms and conditions of the SPA (the “SPA Legal Proceedings”). Accordingly, the Plaintiffs are seeking to rescind the SPA under which, as part of the consideration price, certain convertible notes were issued by the Company to Mr. Xiao.

On 16 March 2017, the Plaintiffs filed an Amended Statement of Claim to the Court of First Instance adding Ms. Liu as a defendant to the SPA Legal Proceedings claiming, amongst other things, that Ms. Liu is a nominee of Mr. Wang and further claim against the Defendants for misrepresentation regarding the undisclosed guarantees given by Zhuhai Hoston in favour of 王天 (Wang Tian) referred to in paragraph (c) above which has led to the Group’s involvement in such litigation.

\* for identification purpose only



## MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the Order of the Court of First Instance dated 5 December 2017, the Plaintiffs filed and served on the Defendants their Further and Better Particulars of the Amended Statement of Claim on 9 January 2018. Upon counsel's advice, the Plaintiffs are considering to further amend the Amended Statement of Claim in order to, amongst other things, simplify their claims and to make clear their causes of action.

As at the date of this report, there has been no progress since the Plaintiffs served their Further and Better Particulars of the Amended Statement of Claim and no judgment has been made by the Court.

- (f) On 30 July 2015, Zhuhai Hoston filed a report to 珠海市公安局 (Zhuhai Public Security Bureau)\* (the "Bureau") against Mr. Wang and Wang Tian (王天), the former directors of Zhuhai Hoston (collectively, the "Former Directors"), in respect of the possible commercial crimes (the "Reported Case") regarding the nonrecoverable prepayments as disclosed in the announcement of the Company dated 14 October 2015.

On 20 June 2018, the Bureau considered that Mr. Wang did not commit any commercial crimes and therefore decided to withdraw the investigation against Mr. Wang.

- (g) On 29 February 2016, Zhuhai Hoston filed a lawsuit in the Xiangzhou People's Court against the Former Directors and 珠海市鑫鋒發展有限公司 (Zhuhai Xinfeng Development Co., Ltd.)\*, the controlled company of the Former Directors (the "Controlled Company"), regarding the prepayment to a supplier of Zhuhai Hoston of RMB4,840,000 for the purchase of machinery. The sum was subsequently transferred to the Controlled Company based on the instructions of the Former Directors to the supplier. According to civil ruling from the Xiangzhou People's Court dated 30 May 2016, the lawsuit has been suspended pending for the investigation results of the Reported Case as the prepayment to the supplier is part of the subject matter of the Reported Case.

Save as disclosed above, as at the date of this report, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group.

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

As at 30 June 2018, save as disclosed in the paragraph headed "Capital Structure – On-market Share Repurchase" in this report, 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 June 2018.

\* for identification purpose only

## DISCLOSURE OF ADDITIONAL INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

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

Name of Director	Capacity	Number of shares or underlying shares held	Approximate percentage of shareholding
Mr. Huang Weidong (Note 1)	Beneficial owner	11,564,000	1.85%
Mr. Leung Chi Fai (Note 2)	Beneficial owner	1,424,000	0.23%
Mr. Li Chongyang (Note 3)	Beneficial owner	5,610,000	0.90%
Ms. Qi Jiao (Note 4)	Beneficial owner	4,360,000	0.70%
Mr. Cong Yongjian (Note 5)	Beneficial owner	1,075,000	0.17%
Mr. Lam Kai Yeung (Note 6)	Beneficial owner	1,000,000	0.16%
Mr. Liu Chenli (Note 7)	Beneficial owner	2,900,000	0.46%

Notes:

1. These 11,564,000 Shares included the (i) 7,204,000 Shares owned by Mr. Huang Weidong as beneficial owner and (ii) 4,360,000 underlying Shares which may be allotted and issued to Mr. Huang Weidong upon full exercise of the share options granted to him under the share option scheme of the Company.

## DISCLOSURE OF ADDITIONAL INFORMATION

2. *These 1,424,000 Shares included the (i) 424,000 Shares owned by Mr. Leung Chi Fai as beneficial owner and (ii) 1,000,000 underlying Shares which may be allotted and issued to Mr. Leung Chi Fai upon full exercise of the share options granted to him under the share option scheme of the Company.*
3. *These 5,610,000 Shares included the (i) 4,610,000 Shares owned by Mr. Li Chongyang as beneficial owner and (ii) 1,000,000 underlying Shares which may be allotted and issued to Mr. Li Chongyang upon full exercise of the share options granted to him under the share option scheme of the Company.*
4. *These 4,360,000 Shares represented the underlying Shares which may be allotted and issued to Ms. Qi Jiao upon full exercise of the share options granted to her under the share option scheme of the Company.*
5. *These 1,075,000 Shares included the (i) 75,000 Shares owned by Mr. Cong Yongjian as beneficial owner and (ii) 1,000,000 underlying Shares which may be allotted and issued to Mr. Cong Yongjian upon full exercise of the share options granted to him under the share option scheme of the Company.*
6. *These 1,000,000 Shares represented the underlying Shares which may be allotted and issued to Mr. Lam Kai Yeung upon full exercise of the share options granted to him under the share option scheme of the Company.*
7. *These 2,900,000 Shares represented the underlying Shares which may be allotted and issued to Mr. Liu Chenli upon full exercise of the share options granted to him under the share option scheme of the Company. Mr. Liu Chenli had resigned as a non-executive Director on 3 August 2018.*

Save as disclosed above, none of the Directors or the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DISCLOSURE OF ADDITIONAL INFORMATION

### SHARE OPTION SCHEME

#### Share Option Scheme adopted on 17 June 2016 (the “Option Scheme”)

The Option Scheme was adopted on 17 June 2016. The purpose of the Option Scheme is to recognise and acknowledge the contributions or potential contributions made or to be made by the eligible participants to the Group and the entity in which the Group holds any equity interest (the “Invested Entity(ies)”), to motivate the eligible participants to optimise their performance and efficiency for the benefit of the Group and the Invested Entities, and to maintain or attract business relationship with the eligible participants whose contributions are or may be beneficial to the growth of the Group and the Invested Entities.

Eligible participants of the Option Scheme include employee (whether full-time or part-time including any executive director), officer (including any non-executive director and independent non-executive director), substantial shareholder, consultant, agent, adviser, customer, business partner, joint venture partner, strategic partner, landlord or tenant of, or any supplier or provider of goods or services to, the Company or any subsidiary or any Invested Entity, or any trustee(s) of a discretionary trust of which one or more beneficiaries belong to any of the abovementioned category(ies) of persons, or any company beneficially owned by any of the abovementioned category(ies) of persons, or any other person who satisfies the criteria set out in the Option Scheme.

The Option Scheme, unless otherwise terminated or amended, will remain in force for a period of 10 years from 17 June 2016 (being the date of approval and adoption of the Option Scheme). The maximum numbers of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be granted under the Option Scheme and other share option schemes adopted by the Company must not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the shares of the Group in issue as at the date of adopting the Option Scheme, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the Option Scheme.

## DISCLOSURE OF ADDITIONAL INFORMATION

The total number of shares issued and to be issued upon exercise of the share options granted under the Option Scheme and other share option schemes of the Group (including both exercised and outstanding options) to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company. Share options granted under the Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is also a grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK\$5 million, within any 12-month period up to and including the date of such grant, are subject to shareholders' approval in general meeting of the Company.

A share option may be accepted by a participant within 21 days from the date of the offer of the option. The exercise period of the share options granted is determined by the directors in accordance with the terms of the Option Scheme, and commences from the date of acceptance of the offer of the share options and ends on a date which is not later than 10 years from the date of grant of the share options.

The subscription price shall be determined by the board of directors and notified to a participant at the time the grant of the option(s) (subject to any adjustments made pursuant to the terms of the Option Scheme) is made to (and subject to acceptance by) the participant and shall be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the grant date, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date; and (c) the nominal value of the shares.

## DISCLOSURE OF ADDITIONAL INFORMATION

A nominal consideration of HK\$1 is payable on acceptance of the offer of an option. Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting. Each option gives the holder the right to subscribe for one ordinary share in the Company.

On 22 June 2016, the Company granted options to certain directors, employees, substantial shareholders and consultants of the Group to subscribe for a total of 436,200,000 ordinary shares of HK\$0.01 each at subscription price of HK\$0.1682 per share on or before 21 June 2026, representing 9.99% of the shares of the Company in issue at that date. The options are vested at the date of grant.

The closing price of the Company's shares immediately before the date of grant of the options was HK\$0.167. The average closing price of the Company's shares for the five trading days immediately preceding the date of grant of options was HK\$0.1682. The estimated fair value of the aforementioned share options granted was HK\$38,960,000, which was calculated by using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The measurement date used in the valuation calculations were the date on which the options were granted. The inputs used in the model are as follows:

Closing share price at date of grant	HK\$0.1670
Exercise price	HK\$0.1682
Expected exercise multiple	1.9–3.6
Expected volatility	56%
Expected dividend yield	0%
Risk-free interest rate	1.19%

The variables and assumptions used above are based on the best estimates of an independent firm of professional valuer, LCH (Asia-Pacific) Surveyors Limited. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

## DISCLOSURE OF ADDITIONAL INFORMATION

During the period ended 30 June 2018, no share options were granted, exercised, cancelled or lapsed.

On 3 August 2018, a total of 2,900,000 share option was lapsed in accordance with the terms of the Option Scheme due to resignation of Mr Liu Chenli as a non-executive director.

The following share options were outstanding under the Option Scheme during the period:

	Outstanding as at 31 January 2018	Date of Grant	Granted/ exercised/ lapsed/ cancelled during the period	Exercise price per outstanding Share Options (upon Share Consolidation became effective on 4 June 2018) (HK\$)	Adjusted number of Outstanding Shares (upon Share Consolidation became effective on 4 June 2018)	Outstanding Shares as at 30 June 2018
<b>Executive Directors</b>						
Leung Chi Fai	10,000,000	22 June 2016	-	1.682	1,000,000	1,000,000
Li Chongyang	10,000,000	22 June 2016	-	1.682	1,000,000	1,000,000
Qi Jiao	43,600,000	22 June 2016	-	1.682	4,360,000	4,360,000
Lam Kai Yeung	10,000,000	22 June 2016	-	1.682	1,000,000	1,000,000
<b>Non-executive Directors</b>						
Huang Weidong	43,600,000	22 June 2016	-	1.682	4,360,000	4,360,000
Liu Chenli (resigned on 3 August 2018)	29,000,000	22 June 2016	-	1.682	2,900,000	2,900,000
<b>Independent non-executive Directors</b>						
Cong Yongjian	10,000,000	22 June 2016	-	1.682	1,000,000	1,000,000
<b>Substantial shareholders</b>						
<b>Business Century</b>						
Investments Limited	29,000,000	22 June 2016	-	1.682	2,900,000	2,900,000
Everun Oil Co., Limited	29,000,000	22 June 2016	-	1.682	2,900,000	2,900,000
<b>Employees</b>						
In aggregate	10,000,000	22 June 2016	-	1.682	1,000,000	1,000,000
<b>Consultants</b>						
In aggregate	43,600,000	22 June 2016	-	1.682	4,360,000	4,360,000
<b>Total</b>	<b>267,800,000</b>		<b>-</b>		<b>26,780,000</b>	<b>26,780,000</b>

## **DISCLOSURE OF ADDITIONAL INFORMATION**

The exercise period of the above share options is from 22 June 2016 to 21 June 2026.

As at the date of this report, there were 41,590,832 ordinary shares available for issue under the Option Scheme, representing approximately 6.66% of the issued share capital of the Company.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES**

Save as disclosed under the sections headed "Directors' and chief executives' interests and short positions in shares and underlying shares" and "Share option scheme" as disclosed in the immediately preceding section, at no time during the six months ended 30 June 2018 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

### **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2018, so far as is known to the Directors, the interests or short positions of the persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained by the Company required to be kept under Section 336 of the SFO were as follows:



## DISCLOSURE OF ADDITIONAL INFORMATION

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

Name	Capacity	Number of Shares, underlying shares and interested held	Approximate percentage of shareholding
Business Century Investments Limited ("Business Century") (Note 1)	Beneficial owner	168,559,249	27.01%
Xie Guilin (Notes 1 and 2)	Interest in controlled corporation	168,559,249	27.01%
Everun Oil Co., Limited ("Everun Oil") (Note 3)	Beneficial owner	89,481,000	14.34%
Chen Jingan (Note 3 and 4)	Interest in controlled corporation	89,481,000	14.34%

#### Notes:

1. These 168,559,249 Shares represented (1) the 109,472,833 Shares beneficially owned by Business Century; (2) the 2,900,000 underlying Shares which may be allotted and issued to Business Century upon full exercise of the share options granted to it under the share option scheme of the Company; and (3) the provisional allotment of 56,186,416 shares which Business Century had undertaken to accept pursuant to the rights issue proposed by the Board on 28 June 2018, which was subsequently terminated on 25 July 2018.
2. These 168,559,249 Shares are held by Business Century. Please refer to note 1 above for details. The issued capital of Business Century is held by Xie Guilin. Under the SFO, Xie Guilin is deemed to be interested in all the Shares held by Business Century.
3. These 89,481,000 Shares represented (1) the 86,581,000 Shares beneficially owned by Everun Oil; and (2) the 2,900,000 underlying Shares which may be allotted and issued to Everun Oil upon full exercise of the share options granted to it under the share option scheme of the Company.
4. These 89,481,000 Shares are held by Everun Oil. Please refer to Note 3 above for details. The issued capital of Everun Oil is held by Chen Jingan under SFO. Chen Jingan is deemed to be interested in all the Shares held by Everun Oil.

## **DISCLOSURE OF ADDITIONAL INFORMATION**

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any persons (other than the Directors and chief executive of the Company) having any interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **CORPORATE GOVERNANCE**

The Company has complied with the code provisions as set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2018 and as at the date of this report.

### **AUDIT COMMITTEE**

The Audit Committee was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the financial reporting, risk management and internal controls of the Group. The Audit Committee comprises the three independent non-executive Directors, namely, Mr. Cong Yongjian, Mr. Ng Yuk Lam (chairman of the Audit Committee) and Dr. Lam Huen Sum. The Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2018 and this report have been reviewed by the Audit Committee.

### **REMUNERATION COMMITTEE**

The Remuneration Committee, which comprises one executive Director, Mr. Lam Kai Yeung, one non-executive Director, Mr. Huang Weidong, and the three independent non-executive Directors, Mr. Cong Yongjian, Dr. Lam Huen Sum and Mr. Ng Yuk Lam (chairman of the Remuneration Committee), is responsible for determining, reviewing and evaluating the remuneration packages of the executive Directors and making recommendations to the Board from time to time.

## DISCLOSURE OF ADDITIONAL INFORMATION

### NOMINATION COMMITTEE

The Nomination Committee comprises one executive Director, Mr. Lam Kai Yeung, one non-executive Director, Mr. Huang Weidong (chairman of the Nomination Committee), and the three independent non-executive Directors, Mr. Cong Yongjian, Dr. Lam Huen Sum and Mr. Ng Yuk Lam. It is responsible for the appointment of new Directors. To maintain the quality of the Board with a balance of skills and experience, the Committee will identify individuals suitably qualified to become Directors when necessary. In evaluating whether an appointee is suitable to act as a Director, the Committee will consider the experience, qualification and other relevant factors.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

By order of the Board  
**Sunway International Holdings Limited**  
**Li Chongyang**  
*Executive Director*

Hong Kong, 31 August 2018