中国优通控股
China UT Holding

China U-Ton Holdings Limited
中 國 優 通 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6168

2018 Interim Report

CONTENTS

HIGHLIGHTS

- China U-Ton Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") reported a loss attributable to the equity holders of the Company of RMB66,808,000 for the six months ended 30 June 2018 (2017: loss of RMB61,224,000).
- The Group's revenue from continuing operations was approximately RMB63,885,000 for the six months ended 30 June 2018 (2017: RMB79,838,000), representing a decrease of RMB15,953,000 as compared with the corresponding period of the previous financial year.
- Loss per share for the six months ended 30 June 2018 was RMB3.3 cents (2017: RMB3.2 cents).
- The board (the "**Board**") of directors (the "**Directors**") of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Continuing operations		
Revenue	**63,885**	79,838
Cost of sales/services	**(49,544)**	(90,696)
Gross profit/(loss)	**14,341**	(10,858)
Other income	**3,157**	4,139
Selling expenses	**(2,922)**	(4,369)
Administrative expenses	**(34,325)**	(41,915)
Research and development expenses	**(4,281)**	(514)
Impairment losses	**(11,505)**	—
Operating loss from continuing operations	**(35,535)**	(53,517)
Finance costs	**(26,516)**	(15,978)
Net gain on disposal of subsidiaries	**—**	5,353
Changes in fair value of trading securities	**—**	11,488
Loss before taxation from continuing operations	**(62,051)**	(52,654)
Income tax	**(242)**	(955)
Loss for the period from continuing operations	**(62,293)**	(53,609)
Discontinued operation		
Loss for the period from discontinued operation, net of tax	**(4,721)**	(10,100)
Loss for the period	**(67,014)**	(63,709)

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Attributable to:		
Equity shareholders of the Company		
– Continuing operations	**(62,087)**	(51,124)
– Discontinued operation	**(4,721)**	(10,100)
	(66,808)	(61,224)
Non-controlling interests		
– Continuing operations	**(206)**	(2,485)
Loss for the period	**(67,014)**	(63,709)

CORPORATE INFORMATION

Board of Directors

Executive Directors

Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹) (resigned on 23 May 2018)
Li Qingli (李慶利) (resigned on 28 January 2018)
Zhao Feng (趙峰)
Ji Huifang (計惠芳)
Liu Jianzhou (劉建洲) (appointed on 23 May 2018)
Chen Qizheng (陳齊爭) (appointed on 23 May 2018)

Non-Executive Director

Ge Lingyue (葛淩躍)

Independent Non-Executive Directors

Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)
Li Xiaohui (李曉慧)

Company Secretary

Chan Oi Chong (陳愛莊) (ICS, HKICS)

Audit Committee

Li Xiaohui (李曉慧) (Chairlady)
Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)

Nomination Committee

Meng Fanlin (孟繁林) (Chairman)
Li Xiaohui (李曉慧)
Wang Haiyu (王海玉)

Remuneration Committee

Wang Haiyu (王海玉) (Chairman)
Meng Fanlin (孟繁林)
Li Xiaohui (李曉慧)

Company's Website

www.chinauton.com

Auditor

KPMG

Legal Adviser to the Company (Hong Kong Law)

Li & Partners

Registered Office

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Cayman Islands

Head Office, Headquarters and Principal Place of Business in the PRC

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Donggang Road 108,
Yuhua District, Shijiazhuang
Hebei Province
China

Principal Place of Business in Hong Kong

Room 2404
24/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
1 Garden Road,
Hong Kong

China Construction Bank
Shijiazhuang Guangan Dajie Branch
No. 26, Guangan Dajie, Shijiazhuang
Hebei Province
China

Industrial and Commercial Bank of China
Beijing Beitaipingzhuang Branch
No. 33, North Road, Beitaipingzhuang
Beijing
China

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
22th Floor, Hopewell Centre
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Wanchai
Hong Kong

Place of Listing

The Stock Exchange of Hong Kong Limited

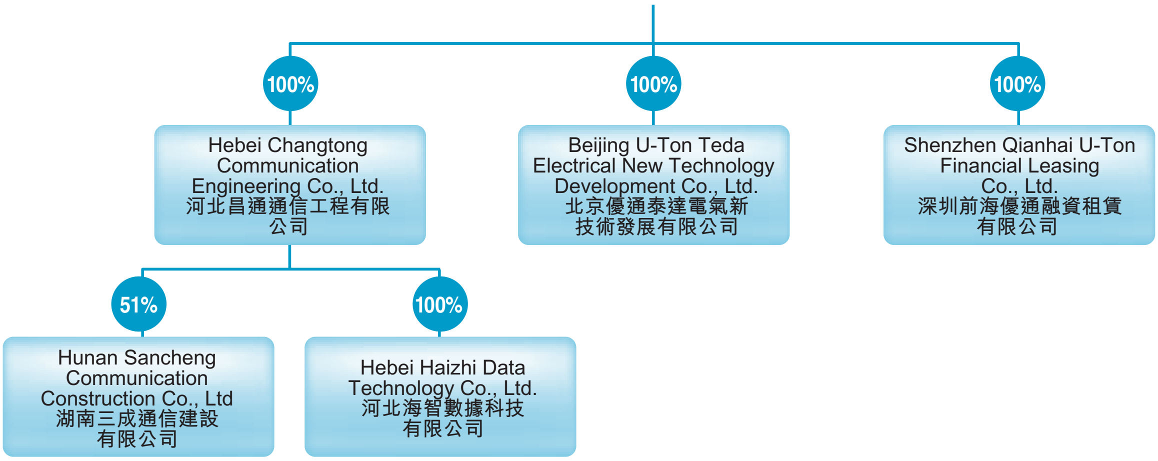
Stock Code

6168

GROUP STRUCTURE OF MAJOR OPERATING SUBSIDIARIES

中国优通控股
China UT Holding

China U-Ton Holdings Limited
中 國 優 通 控 股 有 限 公 司
(股份代號: 6168.HK)



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company reported its unaudited results for the six months ended 30 June 2018 with a loss attributable to the equity holders of the Company of RMB66,808,000, representing a increase of loss of RMB5,584,000 from loss of RMB61,224,000 for the six months ended 30 June 2017. The Group's revenue from continuing operations for the six months ended 30 June 2018 decreased by approximately 20.0% to RMB63,885,000. During the six months ended 30 June 2018, due to increased competition in the traditional optical fiber deployment business, the Group adjusted its allocation of resources by taking the initiative to reduce the amount of business undertaken and foster new potential business growth drivers. The strategy adjustment leads to a decrease in revenue of design, deployment and maintenance services of optical fibers. The Group recorded a substantial loss attributable to the equity holders of the Company due to the following reasons, 1) fall in revenue as a result of strategy adjustment, 2) recognition of provisions for other receivables from third parties that were in financial difficulties, 3) increase in borrowing costs due to increasing interest rates and net foreign exchange related to borrowing changed from gain to loss.

BUSINESS REVIEW

The Group is principally engaged in the provision of design, deployment and maintenance services of optical fibers, other integrated services relating to the design, construction and maintance of communication networks, and low-voltage equipment related integration services, which was intended to be disposed. Our competitive strengths on deployment optical fibers include (1) we provide flexible solutions to our clients with our microducts and mini-cable system integration methods; and (2) we have registered a number of patents and obtained the rights to use the drainage system in various cities/districts to enhance our business development in telecommunication industry in the PRC.

Based on the experience of the Group and the results of detailed analysis, it has been shown that laying optical fiber cables through combining the use of drainage system and mini-cable and mirco-ducts technology is a technology that can construct networks with the most extensive coverage in a shorter time and at a lower cost, and it is expected that no alternative technology with a lower cost will be available in the foreseeable future. The Group has extensive experience and remarkable advantage in the application of minicable and micro-ducts integration technology for laying optical fiber networks in storm water conduits in China. In order to seek international business opportunities, after conducting several site visits, feasibility studies and business opportunity evaluations, our overseas business development departments have established wholly-owned subsidiaries in Libya, South Africa and Algeria respectively and commenced business operations. During the six months ended 30 June 2018, the Group achieved steady growth of its overseas business. Meanwhile, we have also been exploring with local partners in many countries the opportunities to establish joint ventures so as to develop the local market.

In order to diversify and strengthen our revenue streams to maximise returns to the Company's shareholders, the directors have identified money lending business to be an area where the Group can generate regular and long-term sustainable income. The Group has obtained a money lenders license in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) in July 2017 with a view to develop its money lending business.

In February 2018, in order to explore and make strategic investments in other new business opportunities, the Group completed the acquisition of 51% of equity interest in Yourui. Yourui is principally engaged in the provision of environmentally intelligent technical products and services in the PRC. The Directors are of the view that the acquisition of Yourui and the collaboration between Yourui and the Company will provide opportunities to the Company to diversify its existing business and broaden its revenue stream.

Deployment and maintenance services of optical fibers

During the six months ended 30 June 2018, decrease in revenue of deployment services of optical fibers was mainly due to significant decrease in deployment construction revenue in Hebei Province due to keen competition of the market.

Low-voltage equipment integration

The business environment for low-voltage equipment integration services engaged by Qiushi has been competitive in the past two years. Qiushi's business recorded negative operating result in the past two years and dragged down the financial performance of the Group as a whole. In November 2017, the Group entered into the Disposal Agreement to dispose all of its interest in Qiushi. The management considers that the Proposed Disposal is expected to allow the Group to dispose of a loss-making business and reallocate the Company's resources to expand it business with higher growth potential. For details of the Proposed Disposal, please refer to section "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies - Disposal of Qiushi".

Other communication network services

Except for optical fibers related services, the group also provides other integrated services relating to design, construction and maintenance of communication networks.

Money lending

Money lending business is a new operating segment as a result of the commencement of the new operations in July 2017. The money lending segment principally earns interest income from loans to third parties.

Environmentally intelligent technical products and services

Provision of environmentally intelligent technical products and services is a new segment as a result of the acquisition of Yourui. Yourui positions itself as a high-tech company which provides clients with environmental protection related services and solutions based on big data analysis. The main business scope of Yourui covers environmental surveillance and data analysis, environmental early warning and emergency command system construction, environmental management projects as well as security video surveillance and related products.

FUTURE PLANS AND PROSPECTS

Looking forward, the Group expects the operating environment will continue to be challenging. However, the application of wireless technology by the market and the promotion of cloud computing, big data and data centres, together with upgrades in systems and skills and application of 4G and development of 5G, is expected to lead to a multi-fold increase in the global demand for bandwidth in the next few years. Optical fiber broadband network construction is the forerunner of all infrastructure, and the most important ring for the economic development of countries in the surrounding areas under the One Belt One Road initiative, as well as those in the Middle East and Africa. Upgrade of existing networks and laying of new networks are required to cope with the local needs for future development. The Group is proactively looking for business opportunities to expand its existing business in the PRC and overseas. In order to cope with the anticipated challenges and staying competitive, more efforts will be made to strengthen internal control and management, strictly control production costs and operating expenses. The Group will also continue to explore any opportunities to diversify our business with the ultimate aim of bringing greater value to our shareholders in the long run.

FINANCIAL REVIEW

	Six months ended 30 June		
	2018	2017	Increase
Continuing operations	**RMB'000**	RMB'000	(Decrease)%
Revenue	**63,885**	79,838	(20.0)
Gross profit/(loss)	**14,341**	(10,858)	232.1
EBITDA	**(32,632)**	(33,288)	(2.0)
EBITDA margin %	**(51.1%)**	(41.7%)	(9.4%)
Net loss	**(67,014)**	(63,709)	5.2
Loss for the year attributable to the equity holders of the Company	**(66,808)**	(61,224)	9.1
Net loss margin	**(104.6%)**	(76.7%)	27.9%
Continuing and discontinued operations	**RMB cents**	RMB cents	RMB cents
Basic loss per share	**(3.3)**	(3.2)	(0.1)

	As at 30 June 2018	As at 31 December 2017
Current ratio	**1.6**	2.0
Gearing ratio	**89.9%**	117.4%

Revenue

The Group's revenue from continuing operations for the six months ended 30 June 2018 was RMB63,885,000, representing a decrease of approximately 20.0% over the corresponding period of the previous financial year. The decrease in the Group's revenue from continuing operations was mainly due to decrease of construction contract revenue of deployment services of optical fibers.

The following table sets out the breakdown of our Group's revenue during years:

	Six months ended 30 June		Increase
	2018	2017	(Decrease)
	RMB'000	RMB'000	%
Continuing operations			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	**29,081**	39,443	(26.3)
– Micro-ducts and mini-cables system integration methods	**12,955**	28,146	(54.0)
Sub-total	**42,036**	67,589	(37.8)
Other communication networks services	**3,501**	11,581	(69.8)
Provision of environmentally intelligent technical products and services	**7,842**	—	100.0
Money lending	**10,506**	—	100.0
Rental income	**—**	668	(100.0)
Total	**63,885**	79,838	(20.0)
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	**37,562**	22,095	70.0
Total	**101,447**	101,933	(0.5)

Design, deployment and maintenance of optical fibers

Revenue generated from our provision of design, deployment and maintenance of optical fibers services, was RMB42,036,000, representing approximately 65.8% of the total revenue from continuing operations of the Group for the six months ended 30 June 2018. The decrease in construction revenue for the six months ended 30 June 2018 as compared to 2017 was mainly due to the decrease in the revenue derived from the provision of deployment services of optical fibers in Hebei Province due to keen competition.

The following table set forth our revenue from construction contract by major locations for the years indicated.

	Six months ended 30 June			
	2018		2017	
	(RMB'000)	**%**	(RMB'000)	%
Hebei Province	**15,450**	**36.8**	43,895	65.0
Yunnan Province	**5,066**	**12.1**	4,578	6.8
Hunan Province	**7,465**	**17.8**	—	—
Tianjin	**5,294**	**12.6**	4,628	6.8
Shanxi Province	**4,751**	**11.3**	3,780	5.6
Liaoning Province	**1,627**	**3.9**	6,171	9.1
Henan Province	**1,280**	**3.0**	—	—
Shandong Province	**897**	**2.1**	2,701	4.0
Guizhou Province	**138**	**0.3**	1,507	2.2
Sichuan Province	**—**	**—**	295	0.4
Others	**68**	**0.1**	34	0.1
	42,036	**100.0**	67,589	100.0

Other communication networks services

The decrease in other communication networks services was mainly due to decrease in overseas revenue as a result of sanctions on one of our major overseas customer.

Money lending

Money lending business is a new business commenced in July 2017. The Group recorded turnover of approximately RMB10.51 million for the six months ended 30 June 2018, representing approximately 16.4% of the total revenue from continuing operations of the Group for the six months ended 30 June 2018.

Cost of sales and services

The Group's cost of sales and services from continuing operations for the six months ended 30 June 2018 was approximately RMB49,544,000, representing a decrease of approximately 45.4% over the corresponding period of the previous year. The decrease in the Group's cost of sales was due to decrease of construction costs for deployment services of optical fibers and cost control.

Gross loss

The following table sets forth the gross loss of each of our services for the years indicated:

	Six months ended 30 June			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Gross (loss)/profit by services				
Continuing Operations				
Revenue from the provision of design, deployment and maintenance of optical fibers services				
– Traditional deployment methods	**208**	**1.5**	(9,954)	(91.7)
– Micro-ducts and mini-cables system integration methods	**1,244**	**8.7**	(4,396)	(40.5)
Sub-total	**1,452**	**10.2**	(14,350)	(132.2)
Other communication networks services	**308**	**2.1**	2,824	26.0
Provision of environmentally intelligent technical products and services	**2,816**	**19.6**	—	—
Money lending	**9,765**	**68.1**	—	—
Rental income	**—**	**—**	668	6.2
	14,341	**100.0**	(10,858)	100.0
Discontinued operation				
Revenue from the installation and sales of low-voltage system equipment and related accessories	**4,375**		(5,622)	
	18,716		(16,480)	

The following table sets forth the gross margin of each of our services for the years indicated:

	Six months ended 30 June		
	2018	2017	Increase/ (Decrease)
	%	%	percent point
Continuing Operations			
Gross margin by services			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	**0.7**	(25.2)	25.9
– Micro-ducts and mini-cables system integration methods	**9.6**	(15.6)	25.2
Overall	**3.5**	(21.2)	24.7
Other communication networks services	**8.8**	24.4	(15.6)
Revenue from environmentally intelligent technical products and services	**35.9**	—	35.9
Money lending	**93.0**	—	93.0
Rental income	**—**	100.0	(100.0)
Overall gross margin	**22.4**	(13.6)	30.8
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	**11.6**	(25.4)	37.0

There was a significant increase in overall gross margin from continuing operations for the six months ended 30 June 2018 as compared with the corresponding period of the previous financial year.

The increase in our gross margin was primarily due to the increase in gross margin of construction contract revenue in relation to deployment of optical fibers from loss of approximately 21.2% in six months ended 30 June 2017 to profit of approximately 3.5% in six months ended 30 June 2018 as a result of cost control and undertaking less contracts with low margin. In general, the gross margin of construction contract varies according to the difficulties and complexities of each project. Furthermore, our new business of money lending and environmentally intelligent technical products and services contributed gross profit of RMB9.8million and RMB2.8 million, respectively. With the development of new business and recovery of traditional business, the Group gross margin changed from loss to profit in current period.

Major customers and service network

Based in Hebei Province, the Group principally provides one-stop optical fiber deployment solutions for telecommunication operators and provides low-voltage equipment integration services in China. Our major customers include China Mobile Communications Corporation ("China Mobile"), a major telecommunication operator in China which contributed approximately 53% of total revenue from continuing operations, and other regional telecommunication operators. As the Group maintains a favourable position in terms of resource in the industry of both micro-ducts and mini-cables system deployment technology, we obtain our contracts of that kind mainly through negotiated tender, while for traditional deployment business we mainly compete for contracts through open tender.

As at 30 June 2018, the Group's service network included Hebei Province, Yunnan Province, Hunan Province, Tianjin, Shanxi Province, Liaoning Province, Henan Province and etc.

Other income from continuing operations

Other income mainly included the interest income and government grants received by the Group, which amounted to RMB3,157,000 for the six months ended 30 June 2018, representing an decrease of RMB982,000 from RMB4,139,000 for the corresponding period of the previous year due to the decrease in interest income.

Selling expenses and administrative expenses from continuing operations

The Group's selling expenses and administrative expenses for the six months ended 30 June 2018 were RMB37,247,000, representing a decrease of RMB9,036,000 from RMB46,283,000 for the corresponding period of the previous year due to no share option costs recognised during the period (30 June 2017: 9,876,000).

Impairment losses from continuing operations

Impairment losses mainly included impairment losses of RMB11,505,000 on other receivables. The impairment losses on other receivables was mainly due to certain counterparties encountered financial difficulties in 2018 and upon management's assessment only a portion of the receivables is expected to be recovered.

Finance cost from continuing operations

Finance cost mainly included interest charged from bank and other borrowings, corporate bonds, convertible bonds and guaranteed notes and net foreign exchange differences on debts. The increase in finance cost was mainly due to the net foreign exchange difference which changed from gain of RMB8.9 million to loss of RMB0.4 million.

Loss from continuing operations attributable to equity holders of the Company

The Group recorded net loss from continuing operations attributable to equity holders of the Company of RMB62,087,000 for the six months ended 30 June 2018 compared to net loss of RMB51,124,000 for the corresponding period in 2018, representing a increase of loss approximately 21.4%. The increase in loss attributable to equity holders of the Company was mainly due to the net effect of the increase in impairment losses of RMB11,505,000, the increase in finance costs of RMB10,538,000, the decrease in changes in fair value of trading securities of RMB11,488,000, the decrease in net gain on disposal of subsidiaries of RMB5,353,000, the decrease in selling expenses and administration expenses of an aggregate amount of RMB9,036,000 and the increase in gross margin of RMB25,193,000.

Trade and bill receivables

There was a increase in trade and bills receivables as at 30 June 2018 of approximately RMB100,994,000 as compared to 30 June 2017, which was mainly due to the increase in trade receivables of money leading business.

Amount due from customers for contract works

There was a decrease in the amount due from customers for contract works as at 30 June 2018 of RMB31,496,000 as compared to 30 June 2017, which was mainly due to the net effect of decrease in revenue and construction revenue recognized in year 2018 but not certified by customers.

Goodwill

As a result of acquisition of Yourui, the Group recognised goodwill of RMB59,181,000, which represented the fair value in excess of the consideration, non-controlling interest and the net identifiable assets and liabilities of Yourui at the acquisition date (12 February 2018). For details of the acquisition, please refer to the paragraph "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies – Acquisition of Yourui" in this announcement.

Financial assets measured at fair value to other comprehensive income

Financial assets at FVOCI mainly included investment of RMB64,110,000, representing 5.65% of equity interest of Sino Partner. Sino Partner principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo".

Assets and liabilities held-for-sale

Assets and liabilities held-for-sale represented assets and liabilities relating to Qiushi and was stated at the lower of its carrying value and its fair value less costs to sell. All assets and liabilities of Qiushi were reclassified to assets held-for-sale and liabilities held-for-sale, respectively, as the low-voltage system segment has been reclassified as discontinued operation as at 30 June 2018 and 31 December 2017. For details of the proposed disposal, please refer to section "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies - Disposal of Qiushi".

Bank and other borrowings

The Group had short-term and long-term bank and other borrowings as at 30 June 2018 amounted to RMB21,000,000 and RMB47,500,000 respectively. No financial instruments were used for hedging purposes. The Group's bank loans were made in Hong Kong dollars and Renminbi, no bank loans (31 December 2017: RMB59,000,000) are carried at floating rates, and the remaining bank and other borrowings are carried at fixed rates.

Convertible bonds

On 7 June 2016, 9 February 2017 and 27 June 2017, the Company issued convertible bonds with a nominal value of HK$50,000,000, USD10,000,000 (equivalent to HK$78,000,000) and USD4,000,000 (equivalent to HK$31,200,000), respectively. These convertible bonds are guaranteed by Mr. Jiang. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding convertible bond instrument: (i) Mr. Jiang ceases to be the chairman of the board ("Board"); (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Note 18 and the Company's announcements dated 16 May 2016, 7 June 2016, 18 January 2017, 10 February 2017, 15 June 2017 and 27 June 2017.

On 24 May 2018 and 11 June 2018, the bondholders converted the convertible bonds with a principal amount of HK$78 million and HK$20 million into 78,000,000 shares and 20,725,388 shares of the Company with a conversion price of HK$1 and HK$0.965, respectively. As at 30 June 2018, the outstanding principal amount of all convertible bonds was approximately HK$31,200,000 (31 December 2017: HK$159,200,000). Based on the conversion price of the convertible bonds of HK$1.00 per share of the Company, a maximum number of 31,200,000 shares of the Company (31 December 2017: 159,200,000 shares) would be allotted and issued upon exercise of the conversion rights attaching to the outstanding convertible bonds in full, which represent approximately 1.50% of the total number of issued shares of the Company as at 30 June 2018, and approximately 1.47% of the enlarged total number of issued shares immediately after full conversion of convertible bonds at the conversion price of HK$1.00, respectively.

Below is an analysis of the shareholding structure of the Company (i) as at 30 June 2018; and (ii) immediately after full conversion of the convertible bonds at the initial conversion price of HK$1.00.

	As at 30 June 2018		Immediately after full conversion of the Convertible Bond at the initial Conversion Price of HK$1.00	
Shareholders	**No. of Shares** (Note)	**Approximate %** (Note)	**No. of Shares**	**Approximate %**
Mr. Jiang and his associates	627,842,000	30.09	627,842,000	29.65
The bondholders	—	—	31,200,000	1.47
Other substantial shareholders	399,308,000	19.14	399,308,000	18.86
Public	1,059,195,388	50.77	1,059,195,388	50.02
Total	2,086,345,388	100.00	2,146,820,000	100.00

Note: These comprise (i) 10,195,000 Shares owned by his spouse, Ms. Guo Aru, as beneficial owner; (ii) 617,647,700 Shares through his interest in Bright Warm Limited which is owned beneficially as to 100% by Mr. Jiang.

During the year ended 31 December 2017 and six months ended 30 June 2018, there was no dilutive effect attributable to the convertible bonds on the loss per share. Additional information of the convertible bonds issued by the Company, including but not limited to, analysis on the financial and liquidity position of the Group and discussion on the ability to meet its redemption obligations under the convertible bonds are set out in the paragraph “Liquidity and financial resources”.

Guaranteed notes

In January 2017 and June 2017, the Company issued guaranteed notes with a nominal value of USD10,000,000 (equivalent to approximately HK$78,000,000) and USD4,000,000 (equivalent to approximately HK$31,200,000), respectively. These guaranteed notes are guaranteed by Mr. Jiang. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding note instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Company’s announcements dated 18 January 2017, 10 February 2017, 15 June 2017 and 27 June 2017. All guaranteed notes have a maturity period of 2 years, with interest bearing at 11% per annum and are repayable semi-annually.

Liquidity and financial resources

As at 30 June 2018, the Group had current assets of approximately RMB1,167,536,000 (31 December 2017: RMB1,258,975,000) which comprised cash and cash equivalents amounted to approximately RMB72,012,000 as at 30 June 2018 (31 December 2017: RMB195,061,000). As at 30 June 2018, the Group had non-current liabilities and current liabilities amounted to approximately RMB265,929,000 and RMB712,500,000 (31 December 2017: RMB442,803,000 and RMB619,719,000), consisting mainly of payables, corporate bonds, convertible bonds, guaranteed notes, bank and other borrowings arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 1.6 as at 30 June 2018 (31 December 2017: 2.0).

The Group finances its operation primarily with the use of internally-generated cashflows, banking facilities and issuance of bonds.

Gearing ratio

The gearing ratio of the Group is calculated on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other borrowings, corporated bonds, convertible bonds and guaranteed notes) less cash at bank and on hand and restricted bank deposits. Capital comprises all components of equity. The gearing ratio was approximately 89.9% as at 30 June 2018 (31 December 2017: approximately 117.4%).

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign exchange exposure

For the six months ended 30 June 2018, we had partial bank balances, corporate bonds, convertible bonds and guranteed notes which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from translation of amount denominated in foreign currencies as at the report date. During the six months ended 30 June 2018, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign exchange risk.

Capital structure

The shares of the Company were listed on Main Board of the Stock Exchange. The capital of the Company mainly comprises ordinary shares and capital reserves.

Capital commitments

No capital commitments was contracted but not provided for in the financial statements as at 30 June 2018 (31 December 2017: RMB37,500,000).

Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2018 (2017: Nil).

Information on employees

As at 30 June 2018, the Group had 427 employees (31 December 2017: 462), including the executive directors. Total staff costs (including directors' emoluments) were approximately RMB14,145,000 for the six months ended 30 June 2018 as compared to approximately RMB13,440,000 for the six months ended 30 June 2017. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonus may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund scheme in Hong Kong and various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local PRC authorities as well as share options.

Significant investments held

Except for investment in subsidiaries and financial assets at FVOCI as at 30 June 2018, the Group did not hold any significant investment in equity interest in any other company.

Future Plans for Material Investments and Capital Assets

The Group did not have any plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Acquisition of Yourui

In order to explore and make strategic investments in other new business opportunities, the Group acquired 51% of equity interest in Yourui (the "**Acquisition**") at a consideration of a maximum of RMB321,300,000, among which RMB37,500,000 shall be settled in cash, and the remaining consideration shall be settled in cash or by issuing new ordinary shares of the Company at the discretion of the Company if Yourui meets the performance guarantee as stipulated in the share purchase agreement dated 20 October 2017. The Acquisition was completed on 12 February 2018, upon fulfillment of all the conditions precedent set out in the share purchase agreement. After completion, Yourui becomes a subsidiary of the Company. Accordingly, the assets, liabilities and financial results of Yourui, together with its subsidiaries, have been consolidated into the financial statements of the Group since 12 February 2018. The 2017 further consideration as stipulated under the Share purchase agreement shall be determined and settled after issuance of the audit report of Yourui for the financial year ending 31 December 2017. Yourui is principally engaged in the provision of environmentally intelligent technical products and services in the PRC. For details, please refer to the announcements of the Company dated 20 October 2017, 19 January 2018 and 12 February 2018.

Disposal of Qiushi

As approved by the Board, the Company entered into a share sale and purchase agreement (the "**Disposal Agreement**") with Ordillia Group Limited, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Qingli, a former executive director of the Company, on 26 November 2017, pursuant to which the Company agreed to dispose and Ordillia Group Limited agreed to purchase all of the shares of the Company in Shijiazhuang Qiushi Communication Facilities Co., Ltd. (the "**Disposal Company**" or "**Qiushi**") at a consideration with the net amount of RMB82,000,000 (the "**Proposed Disposal**"). Mr. Li Qingli also tendered his resignation as an executive director of the Company with effect from 28 January 2018. As Mr. Li Qingli is a connected person under Chapter 14A of the Listing Rules, the Proposed Disposal also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Proposed Disposal was approved by the extraordinary general meeting held on 10 May 2018. As the conditions precedent under the Disposal Agreement have not been fulfilled, the Proposed Disposal has not been completed as at 30 June 2018. Qiushi is principally engaged in the provision of low-voltage system related business. The low-voltage system segment has been reclassified as discontinued operation since 31 December 2017 due to the Proposed Disposal. For details, please refer to the announcements of the Company dated 26 November 2017, 28 November 2017, 15 December 2017, 27 December 2017, 10 January 2018, 24 January 2018, 8 February 2018, 7 March 2018, 27 March 2018, 11 April 2018, 19 April 2018, 24 April 2018 and 10 May 2018.

During the period ended 30 June 2018, save as disclosed above the Group did not have any other material acquisitions or disposals of subsidiaries and affiliated companies.

Charges on assets

As at 30 June 2018, the Group did not have any pledged assets (31 December 2017: RMB2,270,000).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2018 (31 December 2017: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	 2017 RMB'000 (unaudited)
Continuing operations			
Revenue	3	**63,885**	79,838
Cost of sales/services		**(49,544)**	(90,696)
Gross profit/(loss)		**14,341**	(10,858)
Other income	4	**3,157**	4,139
Selling expenses		**(2,922)**	(4,369)
Administrative expenses		**(34,325)**	(41,915)
Research and development expenses		**(4,281)**	(514)
Impairment losses		**(11,505)**	—
Operating loss from continuing operations		**(35,535)**	(53,517)
Finance costs	5	**(26,516)**	(15,978)
Net gain on disposal of subsidiaries		**—**	5,353
Changes in fair value of trading securities		**—**	11,488
Loss before taxation from continuing operations	6	**(62,051)**	(52,654)
Income tax	7	**(242)**	(955)
Loss for the period from continuing operations		**(62,293)**	(53,609)
Discontinued operation			
Loss for the period from discontinued operation, net of tax		**(4,721)**	(10,100)
Loss for the period		**(67,014)**	(63,709)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	 2017 RMB'000 (unaudited)
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		**(62,087)**	(51,124)
– Discontinued operation		**(4,721)**	(10,100)
		(66,808)	(61,224)
Non-controlling interests			
– Continuing operations		**(206)**	(2,485)
Loss for the period		**(67,014)**	(63,709)
Basic and diluted loss per share (RMB cents)			
Continuing and discontinued operations	9	**(3.3)**	(3.2)
– Continuing operations		**(3.1)**	(2.7)
– Discontinued operation		**(0.2)**	(0.5)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss for the period	**(67,014)**	(63,709)
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into presentation currency	**1,537**	(2,116)
Total comprehensive income for the period	**(65,477)**	65,825
Attributable to:		
Equity shareholders of the Company		
– Continuing operations	**(60,550)**	(53,240)
– Discontinued operation	**(4,721)**	(10,100)
	(65,271)	(63,340)
Non-controlling interests		
– Continuing operations	**(206)**	(2,485)
Total comprehensive income for the period	**(65,477)**	(65,825)

Details of dividends payable to equity shareholders of the Company are set out in note 8.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	10	**49,444**	39,046
Intangible assets		**7,480**	1,174
Goodwill	11	**59,181**	—
Financial assets measured at fair value to other comprehensive income	12	**84,098**	84,098
Prepayments for investments in financial assets	12	**2,300**	9,290
		202,503	133,608
Current assets			
Financial assets measured at fair value through profit or loss	13	**—**	8,897
Inventories		**3,783**	6,156
Trade and bill receivables	14	**221,158**	120,164
Amounts due from customers for contract work		**305,898**	337,394
Other receivables and deposits		**140,810**	134,499
Contract assets		**16,457**	—
Restricted bank deposits	16	**—**	2,270
Cash at bank and on hand	17	**72,012**	195,061
Assets held-for-sale	18	**407,418**	454,534
		1,167,536	1,258,975
Current liabilities			
Trade and other payables	19	**264,922**	194,853
Bank and other borrowings		**21,000**	53,000
Corporate bonds	20	**10,960**	22,411
Convertible bonds	21	**31,685**	41,439
Guaranteed notes	22	**95,252**	25,325
Income tax payable		**17,940**	18,526
Provision for warranties		**699**	680
Liabilities held-for-sale	18	**270,042**	263,485
		712,500	619,719
Net current assets		**455,036**	639,256
Total assets less current liabilities		**657,539**	772,864

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Note	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current liabilities			
Bank and other borrowings		**47,500**	48,000
Corporate bonds	20	**217,691**	193,212
Convertible bonds	21	**—**	112,860
Guaranteed notes	22	**—**	88,464
Deferred tax liabilities		**738**	267
		265,929	442,803
NET ASSETS		**391,610**	330,061
Capital and reserves			
Share capital		**170,909**	162,874
Reserves		**192,483**	173,152
Equity attributable to equity shareholders of the Company		**363,392**	336,026
Non-controlling interests		**28,218**	(5,965)
TOTAL EQUITY		**391,610**	330,061

Approved and authorised for issue by the board of directors on 29 August 2018.

Jiang Changqing	**Zhao Feng**
Chairman	*Executive Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity shareholders of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital Reserve RMB'000	Other reserve RMB'000	Statutory surplus reserve RMB'000	Exchange reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
For the six months ended 30 June 2017 (unaudited)										
Balance at 1 January 2017	154,242	193,445	–	10,142	56,359	671	18,862	433,721	(1,088)	432,633
Changes in equity for 2017:										
Loss for the period	–	–	–	–	–	–	(61,224)	(61,224)	(2,485)	(63,709)
Other comprehensive income	–	–	–	–	–	(2,116)	–	(2,116)	–	(2,116)
Total comprehensive income for the period	–	–	–	–	–	(2,116)	(61,224)	(63,340)	(2,485)	(65,825)
Disposal of a subsidiary	–	–	–	–	–	–	–	–	1,622	1,622
Equity-settled share based transactions	–	–	9,876	–	–	–	–	9,876	–	9,876
Balance at 30 June 2017 (unaudited)	154,242	193,445	9,876	10,142	56,359	(1,445)	(42,362)	380,257	(1,951)	378,306
For the six months ended 30 June 2018 (unaudited)										
Balance at 1 January 2018	**162,874**	**260,006**	**9,876**	**10,142**	**56,359**	**(3,109)**	**(160,122)**	**336,026**	**(5,965)**	**330,061**
Changes in equity for 2018:										
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(66,808)**	**(66,808)**	**(206)**	**(67,014)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,537**	**–**	**1,537**	**–**	**1,537**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**1,537**	**(66,808)**	**(65,271)**	**(206)**	**(65,477)**
Issuance of shares (Note)	**8,035**	**84,602**	**–**	**–**	**–**	**–**	**–**	**92,637**	**–**	**92,637**
Acquisition of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**34,389**	**34,389**
	8,035	**84,602**	**–**	**–**	**–**	**–**	**–**	**92,637**	**34,389**	**127,026**
Balance at 30 June 2018 (unaudited)	**170,909**	**344,608**	**9,876**	**10,142**	**56,359**	**(1,572)**	**(226,930)**	**363,392**	**28,218**	**391,610**

Note:

On 24 May 2018 and 11 June 2018, the Company issued 78,000,000 ordinary shares at HK$0.1 per share and 20,725,388 ordinary shares at HK$0.965 per share respectively. The Company received net proceeds of approximately HK$7,800,000 (equivalent to approximately RMB6,343,000) and approximately HK$2,072,538.8 (equivalent to approximately RMB1,692,000) respectively.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash used in operating activities	**(59,741)**	(106,835)
Net cash used in investing activities	**(1,497)**	(71,325)
Net cash generated from financing activities	**(61,811)**	149,116
Net decrease in cash and cash equivalents	**(123,049)**	(29,044)
Cash and cash equivalents at 1 January	**195,061**	128,057
Cash and cash equivalents at 30 June, represented by bank balances and cash	**72,012**	99,013

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has initially adopted IFRS 15 "Revenue from contracts with customers" ("IFRS 15") and IFRS 9 "Financial Instruments" ("IFRS 9") from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

(a) IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 "Revenue" ("IAS 18"), IAS 11 "Construction Contracts" ("IAS 11") and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The adoption of the new standard exerts no material impact on financial information other than, subject to the new standard, the advances from customers for transfer of goods (or rendering of services) is transferred out from "Accounts payable and accrued liabilities" to "Contract liabilities". According to the IFRS 15, yet corresponding adjustments haven't been made to comparative figures by the Group.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income ("FVOCI") – debt investment; FVOCI – equity investment; or Fair Value through Profit or Loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(i) Classification and measurement of financial assets and financial liabilities *(Continued)*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in Other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(i) Classification and measurement of financial assets and financial liabilities *(Continued)*

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

As for the classification and measurement of financial instruments, financial assets used to be carried at amortized costs and those at FVTPL shall continue to maintain their existing classification and measurement methods after adopting the new financial instruments standards. As for the non-trading equity instrument investments used to be classified as "Available-for-sale financial assets", the Group chooses to irrevocably designate them as carried at FVOCI (not to be carried forward into current profit or loss in the future) which shall be accounted for in "Financial assets measured at fair value through other comprehensive income" instead of "Available-for-sale financial assets". According to the IFRS 9, no adjustment has been made by the Group to the comparative financial figures.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECLs.

The Group has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses on trade and other receivables are presented under 'Selling, general and administrative expenses ', similar to the presentation under IAS 39, and not presented separately in the statement of profit or loss and OCI due to materiality considerations.

Impact of the new impairment model

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018.

Trade receivables and contract assets

With respect to impairment, the new impairment model in new standards replaces the "incurred loss" model in original standards with an "expected credit loss" model. Subject to the new standards on financial instruments, the Group has made an assessment on the gap between the original carrying amount and the carrying amount at the date of adoption of the new standards. The adoption of the new standard exerts no material impact on the retained earnings and other comprehensive income at the beginning of 2018.

3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are the provision of design, deployment and maintenance of optical fibers services, the installation and sale of low-voltage system equipment and related accessories, the provision of other communication networks services, environmentally intelligent technical products and services, and money lending services.

Revenue mainly represents contract revenue from the design, deployment and maintenance of optical fibers services, contract revenue from the installation and sale of low-voltage system equipment and related accessories, contract revenue from the other communication networks services, environmentally intelligent technical products and services, and money lending.

The amount of each significant category of revenue from continuing operations and discontinued operation recognised during the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Continuing operations:		
Revenue from the provision of design, deployment and maintenance of optical fibers services	**42,036**	67,589
Revenue from other communication networks services	**3,501**	11,581
Revenue from environmentally intelligent technical products and services	**7,842**	—
Revenue from the provision of money lending services	**10,506**	—
Rental income	**—**	668
	63,885	79,838
Discontinued operation:		
Revenue from the installation and sales of low-voltage system equipment and related accessories	**37,562**	22,095
	101,447	101,933

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below.

	Six months ended 30 June 2018 (unaudited)						
	Continuing operations					Discontinued operation	
	Optical fibers	Other communication networks	Environmentally intelligent technical products and services	Money lending	Sub-total	Low-voltage system	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers and reportable segment revenue	42,036	3,501	7,842	10,506	63,885	37,562	101,447
Reportable segment gross profit	1,452	308	2,816	9,765	14,341	4,375	18,716

	Six months ended 30 June 2017 (unaudited)					
	Continuing operations				Discontinued operation	
	Optical fibers	Other communication networks	Rental	Sub-total	Low-voltage system	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers and reportable segment revenue	67,589	11,581	668	79,838	22,095	101,933
Reportable segment gross (loss)/profit	(14,350)	2,824	668	(10,858)	(5,622)	(16,480)

Geographic information

The Group operates mainly in the People's Republic of China (the "PRC") and certain countries in Africa. At 30 June 2018 and 2017, the Group did not have significant property, plant and equipment, intangible assets and goodwill physically located or allocated to operations outside the PRC.

4. OTHER INCOME

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Interest income	**882**	4,128	**585**	14	**1,467**	4,142
Investment income	**1,340**	—	**—**	—	**1,340**	—
Government grants	**11**	11	**—**	—	**11**	11
Net gain on trading securities	**924**	—	**—**	—	**924**	—
	3,157	4,139	**585**	14	**3,742**	4,153

5. FINANCE COSTS

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Interest on bank and other borrowings	**5,682**	5,227	**200**	228	**2,800**	5,455
Finance charges on corporate bonds	**8,108**	8,421	**—**	—	**8,108**	8,421
Finance charges on convertible bonds	**6,324**	5,577	**—**	—	**6,162**	5,577
Finance charges on guaranteed notes	**6,001**	5,667	**—**	—	**9,244**	5,667
Total borrowing costs	**26,114**	24,892	**200**	228	**26,314**	25,120
Net foreign exchange (gain)/loss	**402**	(8,914)	**—**	—	**402**	(8,914)
	26,516	15,978	**200**	228	**26,716**	16,206

6. LOSS BEFORE TAXATION

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Employee costs	**9,820**	10,991	**4,325**	2,449	**14,145**	13,440
Depreciation of property, plant and equipment	**2,887**	3,372	**1,502**	118	**4,389**	3,490
Amortisation of intangible assets	**16**	16	**12**	14	**28**	30

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Current taxation:						
– PRC Corporate Income Tax	**284**	1,420	**751**	442	**1,035**	1,862
Deferred taxation:						
– Origination and reversal of temporary differences	**(42)**	(465)	**—**	—	**(42)**	(465)
	242	955	**751**	442	**993**	1,397

(i) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations in their respective jurisdictions of incorporation.

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2018 (2017: 16.5%).

(ii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2018 (2017: 25%).

(iii) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureaux to be taxed as enterprises with advanced and new technologies. As a result, the subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15% for the three years ended 31 December 2019.

(iv) Pursuant to the approvals obtained from the tax authorities, certain subsidiaries of the Group established in the PRC are being taxed at fixed percentages of the respective subsidiaries' revenue for the year, ranging from 7% to 10% (2017: 7% to 10%).

(v) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises registered in 霍尔果斯Xinjiang province. As a result, the subsidiary is exempted from enterprise income tax for the five years ended 31 December 2022.

(vi) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises registered in Xizang. As a result, the subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15%.

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend (2017: Nil)

9. LOSS PER SHARE

The basic loss per share for the period ended 30 June 2018 is calculated based on the loss attributable to the equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Loss attributable to ordinary equity shareholders of the Company:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
From continuing operations	**(62,087)**	(51,124)
From discontinued operations	**(4,721)**	(10,100)
	(66,808)	(61,224)

Weighted average number of ordinary shares:

	Six months ended 30 June	
	2018	2017
	'000	'000
	(unaudited)	(unaudited)
Issued ordinary shares at 1 January	**1,987,620**	1,887,620
Effect of shares issued to equity shareholders of the Company	**17,673**	—
Weighted average number of ordinary shares at 30 June	**2,005,293**	1,887,620

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment amounting to approximately RMB13,285,000 (six months ended 30 June 2017: RMB2,798,000).

11. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs") identified according to the location of operations and major type of services as follows:

	30 June	31 December
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Provision of environmentally intelligent technical products and services	**59,181**	—

12. FINANCIAL ASSETS MEASURED AT FAIR VALUE TO OTHER COMPREHENSIVE INCOME/ PREPAYMENTS FOR INVESTMENTS IN FINANCIAL ASSETS

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Financial assets measured at fair value to other comprehensive income		
Unlisted equity securities		
– Investment in Hebei Huaxun	**13,916**	13,916
– Investment in Sino Partner	**64,110**	64,110
– Investment in Jiaxing Jiamiao	**7,500**	7,500
	85,526	85,526
Less: impairment losses	**(1,428)**	(1,428)
	84,098	84,098
Prepayments for investments in financial assets	**2,300**	9,290

The Group has initially applied IFRS9 at 1 January 2018. Under the transition method chosen, comparative information is not restated as disclosed in note 2. The unlisted equity securities represent investment in unlisted private entities. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purpose. The Group does not intend to dispose of them in the near future.

13. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Listed equity securities at fair value		
– in Hong Kong	**—**	8,897

14. TRADE AND BILL RECEIVABLES

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Trade and bill receivables - current portion	**248,976**	147,982
Less: Allowance for doubtful debts	**(27,818)**	(27,818)
	221,158	120,164
Trade receivables - non-current portion	**—**	—
	221,158	120,164

As of the end of the reporting period, the ageing analysis of trade and bill receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within 90 days	**69,448**	74,948
91 to 180 days	**42,297**	25,690
181 to 365 days	**96,717**	9,227
Over 1 year	**12,696**	10,299
	221,158	120,164

15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Amounts due from Nanjing Newlixon and Newlixon NCEH		**23,333**	23,333
Loans to third parties	(a)	**—**	26,480
Prepayments for inventories		**74,398**	26,950
Deposits for construction contracts' Bidding and performance		**—**	37,504
Others		**76,245**	53,398
		173,976	167,665
Less: allowance for doubtful debts	(b)	**(33,166)**	(33,166)
		140,810	134,499

15. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

All of the other receivables, deposits and prepayments are expected to be recovered or recognised as expenses within one year.

Notes:

(a) The balance comprise guaranteed loans to third parties bearing interest ranging from 10% to 15% (31 December 2017: 10% to 15%). All of the loans are expected to be recovered within one year.

(b) Movements of allowance for doubtful debts are set out as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Balance at 1 January	**33,166**	—
Impairment losses recognised	**—**	33,166
	33,166	33,166

16. RESTRICTED BANK DEPOSITS

Restricted bank deposits were mainly used to secure the Group's bank borrowings. These bank deposits will be released upon the repayment of the relevant bank borrowings.

17. CASH AT BANK AND ON HAND

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Cash at bank and on hand	**72,012**	195,061

The Group's operations in the PRC (excluding Hong Kong) are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC (excluding Hong Kong) is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

18. ASSETS AND LIABILITIES HELD-FOR-SALE

The intended disposed of Shijiazhuang Qiushi resulted in the assets and liabilities of Shijiazhuang Qiushi being presented as assets and liabilities held-for-sale in the consolidated statement of financial position at 30 June 2018 and 31 December 2017.

Assets and liabilities held-for-sale

The assets and liabilities held-for-sale comprise the following:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Property, plant and equipment	**5,479**	4,079
Intangible assets	**55**	43
Goodwill	**30,099**	30,099
Inventories	**1,790**	1,645
Trade and bill receivables	**75,053**	33,278
Amounts due from customers for contract work	**81,039**	153,568
Other receivables and deposits	**113,787**	200,470
Contract assets	**98,911**	—
Cash at bank and on hand	**1,205**	31,352
Assets held-for-sale	**407,418**	454,534
Trade and other payables	**270,042**	251,097
Bank and other borrowings	**—**	9,750
Income tax payable	**—**	2,638
Liabilities held-for-sale	**270,042**	263,485

19. TRADE AND OTHER PAYABLES

At 30 June 2018, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within 90 days	6,068	38,113
91 to 180 days	13,854	13,622
181 to 365 days	21,064	24,087
Over 1 year	55,486	50,810
	96,472	126,632

20. CORPORATE BONDS

In 2018, the Group issued unsecured corporate bonds with an aggregate principal amount of HK$30,000,000 (equivalent to approximately RMB25,293,000) (31 December 2017: HK$50,000,000, equivalent to approximately RMB42,414,000). The bonds issued in 2018 will mature in 2 years from the respective dates of issuance (2017: 2 years) and bear interest at 6% per annum payable annually (2017: 6%). The movements of the balance of corporate bonds are as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
At 1 January	215,623	190,425
Net proceeds received	25,293	36,476
Repayments during the period	(11,803)	(3,365)
Finance charges accrued for the period	8,108	19,327
Interest paid during the period	(6,365)	(14,192)
Exchange adjustments	(2,205)	(13,048)
	228,651	215,623
Less: Amounts repayable within one year	(10,960)	(22,411)
Amounts repayable after one year	217,691	193,212

21. CONVERTIBLE BONDS

On 9 February 2017 and 27 June 2017, the Company issued convertible bonds with principal amounts of USD10,000,000 (equivalent to approximately RMB68,710,000) and USD4,000,000 (equivalent to approximately RMB27,317,000), respectively, to Donghai Investment Fund Series SPC. All of these convertible bonds have a maturity period of 2 years from their respective dates of issuance, bear interest at 8% per annum payable semi-annually. All of these convertible bonds are guaranteed by the Controlling Shareholder. The bonds are convertible at the option of the bondholder into ordinary shares during the conversion period beginning on the first anniversary of the issue date or such earlier date as may be agreed by the issuer and bondholder and ending on maturity date. The bondholder has the right to convert all or any part of the outstanding principal amount of the convertible bonds with the initial conversion price of HK$1.00 per conversion share, subject to any adjustment from time to time (i.e. the conversion options).

On 24 May 2018 and 11 June 2018, the bondholders converted the convertible bonds with a principal amount of HK$78 million and HK$20 million into 78,000,000 shares and 20,725,388 shares of the Company with a conversion price of HK$1 and HK$0.965, respectively. Upon completion of these conversions, the amount of HK$9,872,538.8, representing the par value, was credited to the Company's share capital. The difference between the carrying amount of the convertible bonds and the par value of HK$88,127,461.2 was credited to the share premium. In addition, HK$16,699,178 of the derivative components of the convertible bonds have been transferred to the share premium.

The conversion options are classified as derivative financial instruments and have been included in the balance of convertible bonds in the consolidated statement of financial position. The convertible bonds are analysed as follows:

	Liability components 30 June 2018 RMB'000 (unaudited)	Derivative components 30 June 2018 RMB'000 (unaudited)	Total 30 June 2018 RMB'000 (unaudited)
At 1 January 2018	131,324	22,975	154,299
Interest charged during the period	6,324	—	6,324
Conversion of convertible bonds	(82,113)	(16,699)	(98,812)
Interest paid during the period	(5,148)	—	(5,148)
Exchange adjustments	(457)	5	(452)
Principal repaid during the period	(24,526)	—	(24,526)
At 30 June 2018	25,404	6,281	31,685

22. GUARANTEED NOTES

In January 2017, the Company issued guaranteed notes with an aggregate principal amount of USD10,000,000 (equivalent to approximately RMB68,432,000). In June 2017, the Company issued guaranteed notes with an aggregate principal amount of USD4,000,000 (equivalent to approximately RMB27,282,000). The guaranteed notes will mature in January 2019 and June 2019, respectively, and bear interest at 11% per annum payable semi-annually. The guaranteed notes are guaranteed by the Controlling Shareholder.

The movements of the guaranteed notes during the period are as follows:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
At 1 January	**113,789**	45,132
Net proceeds received	**—**	95,714
Interest charged during the period	**6,001**	7,908
Interest paid during the period	**(3,567)**	(8,306)
Repayments during the period	**(27,224)**	(17,342)
Exchange adjustments	**6,253**	(9,317)
At the end of the period	**95,252**	113,789
Loss: amounts repayable within one year	**(95,252)**	(25,325)
Amounts repayable after one year	**—**	88,464

23. ACQUISITION OF SUBSIDIARY

On 12 February 2018, the Group completed the acquisition of 51% of the shares and voting interests in Beijing Yourui Jiahe Electronic Technology Co., Ltd. ("Yourui") (北京優瑞嘉和電子科技有限公司), a company established in the PRC, which is principally engaged in the provision of environmentally intelligent technical products and services in the PRC. For details, please refer to the Company's announcements dated 20 October 2017,19 January 2018 and 12 February 2018.

Consideration transferred

Fair value of consideration transferred at the date of acquisition.

	RMB '000
Cash	37,500
Contingent consideration	57,473
	94,973

23. ACQUISITION OF SUBSIDIARY *(Continued)*

Consideration transferred *(Continued)*

In the event that Yourui meets the performance guarantee of 2017 and 2018, further consideration shares of a maximum of RMB283,800,000 shall be allotted and issued by the Company. In the event that Yourui does not meet the Performance Guarantee of 2017 and 2018, the cash consideration of RMB37,500,000 and the interest thereon shall be paid back to the Company. The contingent consideration represents the fair value of additional consideration at the date of acquisition.

Acquisition-related costs

The Group incurred acquisition-related costs relating to external legal fees and due diligence costs. These costs have been included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	RMB '000
Property, plant and equipment	119
Intangible assets	6,840
Inventories	3
Trade and other receivables	58,189
Cash and cash equivalents	7,662
Deferred tax liabilities	513
Trade and other payables	2,109
Tax payables	11
Total identifiable net assets acquired	**70,180**

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	RMB '000
Consideration	94,973
Plus: non-controlling interests	34,388
Less: net assets acquired	70,180
Goodwill arising on acquisition	**59,181**

24. RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) For the current interim period, the following parties are identified as related party to the Group and the respective relationships are set out below:

Name of related party	Relationship
Mr. Jiang Changqing	Beneficial Shareholder and director of the Company

(b) Transactions with the Controlling Shareholder and his affiliates

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Net decrease in non-interest bearing advances received from related parties	—	(534)

25. CAPIAL COMMITMENTS

As at 30 June 2018, the Group had no capital commitments (31 December 2017: Nil).

OTHER INFORMATION

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS

Comparison of Future Plans with the Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the period ended 30 June 2018. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business plan as set out in the Prospectus	Actual business progress up to 30 June 2018
1. Further strengthening our deployment services of optical fibers in the PRC	
(i) Investment in equipment	The Group has purchased various equipment, spare parts of equipment and motor vehicles for construction projects.
(ii) Market expansion	The Group has built sixteen experimental sections and purchased motor vehicles for marketing purposes. In addition, the Group has established three representative office in Chongqing, Tianjin and Shenzhen.
(iii) Securing strategic assets/rights	The Group has signed one co-operation memorandum with a government department and the Group is communicating with various relevant governmental departments in various cities of the PRC.
(iv) Acquisition	The Group completed three acquisitions which are located in Hunan Province, Chongqing and Hebei Province.
(v) Human resources	The Group has employed additional technical and management staff and provided relevant training to new and existing staff.
(vi) Research and development	The Group has continued to conduct research and development on technology related to micro-ducts and mini-cables system integration methods, especially the application in sewer system.
2. Expanding our business of low-voltage equipment integration services in the PRC	
(i) Sales and marketing	The Group has employed additional staff to strengthen sales and marketing network. In addition, the Group is conducting research on appropriate sales and marketing activities to promote reputation.

As of the date of this announcement, the directors had no intention to make any changes to the business plan.

Use of Proceeds

The net proceeds from the Placing on 12 June 2012 (the "Listing Date") were approximately HK$108.7 million (equivalent to approximately RMB88.7 million). The net proceeds from the Listing Date to 30 June 2018 had been applied as follows:

		Use of proceeds from the Listing Date to period ended 30 June 2018 as shown in the Prospectus HK$ (million)	Actual use of proceeds from the Listing Date to 31 December 2017 HK$ (million)
1.	Further strengthening our deployment services of optical fibers in the PRC		
	(i) Investment in equipment	26.18	11.86
	(ii) Market expansion	15.50	15.50
	(iii) Securing strategic assets/rights	23.42	23.42
	(iv) Acquisition	12.20	12.20
	(v) Human resources	2.60	2.60
	(vi) Research and development	3.70	3.70
	Sub-total	83.60	69.28
2.	Expanding our business of low-voltage equipment integration services in the PRC		
	(i) Sales and marketing	2.4	2.4
3.	Repayment of bank and other borrowings	14.30	14.30
4.	General working capital (Note)	8.4	8.40
Total		108.70	94.38

Note: The amount of general working capital had been reduced from HK$11.1 million to HK$8.4 million to reflect the difference of the estimated amount of net proceeds shown in the Prospectus amounted to HK$111.4 million and the final net proceeds of HK$108.7 million.

The future plans and prospects as stated in the Prospectus were derived from the Group's reasonable estimation of the future market conditions based on the information available at the time of preparing the Prospectus. According to the Company's announcement dated 24 July 2014, the Company intended to adjust the allocation of the unutilised net proceeds in the sum of approximately HK$55.1 million. As of the date of this announcement, the directors are not aware of material change to the planned use of the proceeds from the plan as stated in such announcement.

On 29 September 2014, subscription of 62,500,000 new shares was completed and net proceeds were approximately HK$96.75 million (equivalent to approximately RMB76.70 million). On 11 February 2016, subscription of 50,000,000 new shares was completed and net proceeds were approximately HK$47.6 million (equivalent to approximately RMB 40.26 million). On 21 July 2017, subscription of 100,000,000 new shares was completed and net proceeds were approximately HK$87.02 million (equivalent to approximately RMB 75.11 million). The net proceeds from the completion date of the aforesaid subscription to 30 June 2018 had been applied as follows:

	Planned use HK$ (million)	Actual use HK$ (million)
1. Acquisition	21.30	21.30
2. General working capital	146.85	146.85
3. Repayments of debts	63.22	63.22
	231.37	231.37

On 7 June 2016, 9 February 2017 and 27 June 2017, the Company issued convertible bonds with a nominal value of HK$50,000,000, USD10,000,000 (equivalent to HK$78,000,000) and USD4,000,000 (equivalent to HK$31,200,000), respectively. The net proceeds from the issue of the Convertible Bonds were approximately HK$49,500,000, HK$78,000,000 and HK$31,175,000 respectively. The net proceeds from the completion date of the aforesaid issuances to 30 June 2018 had been applied as follows:

	Planned use HK$ (million)	Actual use HK$ (million)
1. Day-to-day operations	146.82	146.82
2. Investments and acquisitions	11.86	11.86
	158.68	158.68

SHARE OPTION SCHEME

The Company's existing share option scheme was approved for adoption pursuant to the written resolutions of all of our Shareholders passed on 27 May 2012 (the "**Share Option Scheme**") for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board shall approve from time to time.

Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries; (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 June 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit. The Company had granted a total of 168,000,000 share options since the adoption of the Share Option Scheme, of which 123,000,000 share options so far granted had been exercised, lapsed or cancelled and 45,000,000 share options remain outstanding. As at 25 May 2018, the Company had utilised 100% of the existing share option scheme limit. With the approval granted by the Shareholders at the extraordinary general meeting held on 11 July 2018 (the "**EGM**"), the limit on the grant of share options under the Share Option Scheme has been refreshed to 208,634,538 Shares, being 10% of the Shares in issue as at the date of the EGM, and the Directors are authorised to grant share options up to the refreshed share option scheme limit to the eligible participants. For details, please refer to the announcements of the Company dated 24 May 2018, 25 May 2018, 14 June 2018, 20 June 2018 and 11 July 2018.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 27 May 2012 and remains in force until 26 May 2022. The Company may, by resolution in general meeting or at such date as the Board determined, terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (the "Date of Grant") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

On 24 January 2017, 60,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All share options granted will vest six months from the date of grant. The share options granted will lapse on 23 July 2020. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$0.9 each and is settled gross in shares. For details, please refer to the announcement of the Company dated 24 January 2017.

On 24 May 2018, the Group granted share options to certain eligible participants to subscribe for a total of 92,880,000 ordinary shares at the exercise price of HK$1.3 per Share under the Share Option Scheme, subject to acceptance of the grantees. On 25 May 2018, the Group cancelled the grant of the 92,880,000 Share Options to the grantees in accordance with the terms of the Share Option Scheme. As at 25 May 2018, none of the share options granted by the Company has been accepted by any of the grantees. The Board considers that cancellation of the grant of the share options would not have any material impact on the business operation or financial position of the Group. For details, please refer to the announcements of the Company dated 24 May 2018 and 25 May 2018.

(i) The terms and conditions of the options granted in 2017 are as follows:

	Number of share options	Vesting conditions	Contractual life of share options
Share options granted to directors	21,600,000	Six months from the date of grant	3.5 years
Share options granted to employees	38,400,000	Six months from the date of grant	3.5 years
Total	60,000,000		

(ii) Reconciliation of outstanding share options:

	Weighted average exercise price	Number of share options
Outstanding at 1 January 2018	HK$0.90	45,000,000
Granted during the year	HK$1.30	92,880,000
Cancelled during the year	HK$1.30	(92,880,000)
Outstanding/Exercisable at 30 June 2018	HK$0.90	45,000,000

The share options outstanding at 30 June 2018 had an exercise price of HK$0.90 and a remaining contractual life of 2.07 years.

(iii) Measurement of fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	Share options granted to directors	Share options granted to employees
Fair value at measurement date	HK$0.27	HK$0.237
Share price	HK$0.90	HK$ 0.90
Exercise price	HK$0.90	HK$ 0.90
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	39.469%	39.469%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	3.5	3.5
Expected dividends	0.000%	0.000%
Risk-free interest rate (based on Exchange Fund Notes)	1.364%	1.364%

The expected volatility is based on the historical volatility, 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.

Share options were granted either with or without a service condition. This condition, if any, has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

As none of the share options granted by the Company on 24 May 2018 has been accepted by any of the grantees when the Group cancelled the grant of the 92,880,000 share options on 25 May 2018, no fair values of the options granted during the period ended 30 June 2018 is recognised (31 December 2017: RMB9,876,000).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2018, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Company

Name of director	Name of Group member/associated corporation	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Jiang Changqing (Note 2 and note 3)	Our Company	Interest of a controlled corporation	617,647,000 Shares (L)	29.60%
	Our Company	Interest of Spouse	10,195,000 Shares (L)	0.49%

Notes:

1. The letter "L" denotes the directors' long position in the shares of our Company or the relevant associated corporation.

2. The 617,647,000 Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Mr. Jiang Changqing is also interested in 1,800,000 share options granted under the Share Option Scheme.

3. Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Ms. Guo Aru held 10,195,000 Shares directly. Mr. Jiang Changqing is deemed to be interested in the 10,195,000 Shares held by Ms. Guo Aru.

Save as disclosed above, as at 30 June 2018, none of the directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2018, so far as was known to the directors, the following persons/entities (other than the directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Name of Group member	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Bright Warm Limited (Note 2)	Our Company	Beneficial owner	617,647,000 Shares (L)	29.60%
Asia United Fund (Note 3)	Our Company	Investment manager	399,308,000 Shares (L)	19.14%

Notes:

1. The letter "L" denotes the person's long position in the shares of our Company or the relevant Group member.

2. Bright Warm Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Therefore, Mr. Jiang Changqing is also deemed to be interested in the 617,647,000 Shares owned by Bright Warm Limited by virtue of the SFO.

3. To the best information, belief and knowledge of the Directors, save as being a shareholder of the Company, each of Asia United Fund and its ultimate beneficial owners are independent third parties.

Save as disclosed above, as at 30 June 2018, the directors were not aware of any other persons/entities (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period ended 30 June 2018.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

With the Shareholders' approval granted at the EGM, the limit on the grant of share options under the Share Option Scheme has been refreshed to 208,634,538 Shares, being 10% of the Shares in issue as at the date of the EGM, and the Directors are authorised to grant share options up to the refreshed share option scheme limit to the eligible participants. For details, please refer to the paragraph headed "Share Option Scheme" above in this announcement.

COMPETING INTERESTS

Save and except for interests in the Group, none of the directors and Mr. Jiang nor their respective associates (as defined under the Listing Rules) had any interest in any other companies as at 30 June 2018 which may, directly or indirectly, compete with the Group's business.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("the GEM Listing Rules") for the period where the Company's shares were listed on GEM. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the period ended 30 June 2018.

CORPORATE GOVERNANCE CODE

In the opinion of the directors, throughout the period ended 30 June 2018 the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Lising Rules except Code Provision A.2.1.

Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Jiang Changqing to assume both roles as the chief executive officer and executive chairman of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles. With the strong business experience of the directors, they do not expect any issues would arise due to the combined role of Mr. Jiang Changqing. The Group also has in place an internal control system to perform the check and balance function. There are also three independent non-executive directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 to 3.23 of the Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 to C3.7 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee internal control procedures of the Company. The audit committee comprises three independent non-executive directors, namely Ms. Li Xiaohui (chairlady of the audit committee), Mr. Meng Fanlin and Mr. Wang Haiyu.

The audit committee had reviewed the interim results for the period ended 30 June 2018 and provided advice and comments thereon and the audit committee has agreed to the figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the period ended 30 June 2018.

PUBLICATION OF THE INTERIM RESULTS AND THE INTERIM REPORT

The interim results announcement and this interim report are published on the website of The Stock Exchange of Hong Kong Limited at http://www.hkexnews.hk and the website of the Company at http://www.chinauton.com.

By order of the Board
China U-Ton Holdings Limited
Jiang Changqing
Chairman and Executive Director

Hong Kong, 29 August 2018