



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 724)

**INTERIM  
REPORT  
2019**

## **CORPORATE INFORMATION**

### **EXECUTIVE DIRECTORS**

Mr. Lam Yat Keung  
Mr. Huang Hanshui  
Mr. Yang Junjie

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

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

### **AUDIT COMMITTEE**

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

### **REMUNERATION COMMITTEE**

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

### **NOMINATION COMMITTEE**

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

### **INVESTMENT COMMITTEE**

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

### **COMPANY SECRETARY**

Ms. Tsang Man Sze

### **REGISTERED OFFICE**

Clarendon House  
2 Church Street  
Hamilton, HM 11  
Bermuda

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

18th Floor, Times Media Centre  
133 Wan Chai Road  
Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Conyers Corporate Services  
(Bermuda) Limited  
Clarendon House  
2 Church Street  
PO Box HM1022  
Hamilton HM DX  
Bermuda

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tricor Tengis Limited  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **SHARE LISTING**

The Stock Exchange of Hong Kong  
Limited  
Stock Code: 724

### **WEBSITE**

[www.irasia.com/listco/hk/ruixin](http://www.irasia.com/listco/hk/ruixin)

The board (the “Board”) of directors (the “Director(s)”) of Ruixin International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019, together with the comparative figures for the corresponding period and selected explanatory notes as set out below.

## Results Overview

For the six months ended 30 June 2019 (the “Reporting Period”), the Group reported revenue of approximately HK\$138.2 million, representing a decrease of approximately 45.1% as compared with approximately HK\$251.6 million for the six months ended 30 June 2018 (the “Corresponding Period”).

Loss for the Reporting Period increased to approximately HK\$36.5 million from approximately HK\$30.5 million for the Corresponding Period. The increase in loss for the Reporting Period was mainly due to, among others, the increase in the operating loss for the electronic products business, which is partly offset by the decrease in imputed interest expenses on convertible notes. The increase in the operating loss for the electronic products business in the Reporting Period was mainly due to, among others, the drop in revenue amid the uncertainties arising from the continuation and escalation of the trade war, the decrease in manufacturing and operating expenses not in the same scale as the drop in revenue due to fixed costs, and the increase in maintenance expenses for the production equipment to keep the machines in a compatible condition.

Other than the imputed interest expenses on convertible notes which arose as a result of accounting treatment under the provisions of the applicable accounting standards, the Group made a loss of approximately HK\$29.8 million for the Reporting Period, as compared with a loss of approximately HK\$22.3 million for the Corresponding Period.

## Financial Highlights

	Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Revenue	138,247	251,645
Gross profit	3,273	12,668
Loss for the period	(36,492)	(30,539)
Imputed interest expenses on convertible notes	(6,738)	(8,258)
<b>Loss for the period before imputed interest expenses on convertible notes</b>	<b>(29,754)</b>	<b>(22,281)</b>

## Interim Dividend

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

The electronic products business reported a drop of approximately 45.1% in revenue from approximately HK\$251.6 million in the Corresponding Period to approximately HK\$138.2 million in the Reporting Period. The tariff battle between China and the U.S. remained and became severer during the Reporting Period which affected the revenue generated by the Group. The gross profit for the electronic products business during the Reporting Period was approximately HK\$3.3 million at a gross margin of approximately 2.4% which was dropped from approximately 5.0% in the Corresponding Period. Given that the drop in manufacturing expenses was not in the same scale as the drop in revenue and the increase in maintenance expenses for the production equipment to keep them in a compatible condition, the gross margin was reduced as a result.

On 23 April 2019, the Company announced the proposed share consolidation (the "Share Consolidation") on the basis that every twenty (20) issued and unissued existing shares of the Company with a par value of HK\$0.01 each would be consolidated into one (1) consolidated share of the Company with a par value of HK\$0.20 each. The relevant ordinary resolution was duly passed at the special general meeting of the Company on 22 May 2019 and the Share Consolidation became effective on 23 May 2019. As a result of the Share Consolidation and under the terms and conditions of the convertible notes, the conversion price of the outstanding convertible notes was adjusted from HK\$0.011 to HK\$0.22 per share with effect from the close of business in Hong Kong on 22 May 2019 and the outstanding convertible notes in the principal amount of HK\$158.4 million will be convertible into 720,000,000 consolidated shares. For details, please refer to the announcements of the Company dated 23 April 2019 and 22 May 2019, as well as the circular of the Company dated 6 May 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Business and Financial Review *(Continued)*

As at 30 June 2019 and the date of this report, the principal amount of convertible notes that remained outstanding was HK\$158.4 million with a conversion price of HK\$0.22 per share and the maturity date is 31 January 2022. As at 30 June 2019, the Group had bank balances and cash of approximately HK\$28.0 million, net assets of approximately HK\$30.5 million and net current assets of approximately HK\$112.2 million with a current ratio of 3.2 times, as compared with bank balances and cash of approximately HK\$30.7 million, net assets of approximately HK\$67.9 million and net current assets of approximately HK\$155.4 million with a current ratio of 5.1 times as at 31 December 2018. The Company is considering various alternatives to more permanently improve the Group's financial position. The Group is seeking and exploring business opportunities in Vietnam to improve the prospect of the Group. The Company wishes to highlight that no binding agreement in relation to the potential investment opportunities in Vietnam has been entered into as at the date of this report.

### Liquidity, Financial Resources and Capital Structure

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

As at 30 June 2019, the Group had bank balances and cash of approximately HK\$28.0 million (31 December 2018: approximately HK\$30.7 million). The Group's current ratio (measured as total current assets to total current liabilities) was 3.2 times (31 December 2018: 5.1 times).

As at 30 June 2019, the Company had outstanding zero coupon convertible notes due on 31 January 2022 with an aggregate principal amount of HK\$158.4 million (31 December 2018: HK\$158.4 million) and a conversion price of HK\$0.22 (31 December 2018: HK\$0.011) per share. During the Reporting Period, as a result of the Share Consolidation and under the terms and conditions of the convertible notes, the conversion price was adjusted from HK\$0.011 per share to HK\$0.22 per share. Based on the adjusted conversion price of HK\$0.22 per share, the outstanding convertible notes with an aggregate principal amount of HK\$158.4 million will be convertible into 720,000,000 shares. Details are set out in note 14 to the condensed consolidated financial statements and the paragraphs headed "Business and Financial Review" in the Management Discussion and Analysis on page 3 and 4 of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Liquidity, Financial Resources and Capital Structure** *(Continued)*

As at 30 June 2019, the Group had no outstanding bank borrowings (31 December 2018: nil). The gearing ratio, which is calculated by total interest bearing borrowings to total equity, was nil as at 30 June 2019 and 31 December 2018.

As at 30 June 2019, the Group had no capital expenditure commitments (31 December 2018: nil).

### **Significant Investments**

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

### **Material Acquisitions and Disposals of Subsidiaries and Associated Companies**

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

### **Charge on Group's Assets**

As at 30 June 2019, the Group did not have any assets pledged (31 December 2018: nil).

### **Foreign Exchange Exposures**

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

### **Contingent Liability**

Details of the contingent liability of the Group are set out in note 17 to the condensed consolidated financial statements.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Employee and Remuneration Policy

As at 30 June 2019, the Group had 413 (30 June 2018: 476) full time employees in Hong Kong, the PRC (including 371 (30 June 2018: 431) subcontractor's staff for the outsourced production of electronic products) and Vietnam. Total staff costs (including Directors' remuneration) for the Reporting Period amounted to approximately HK\$14.4 million (six months ended 30 June 2018: approximately HK\$13.6 million). The employees are remunerated with reference to the qualification, experience, responsibility and performance of the individual, the performance of the Group and the market practices. Apart from the basic remuneration package, the mandatory provident fund scheme, the central provident scheme in the PRC and the state pension scheme in Vietnam, the Company also operates a share option scheme based on which the Board may, at its discretion, grant options to eligible employees of the Group.

### Future Outlook

According to the International Monetary Fund (the "IMF"), global growth is still sluggish. Against a difficult backdrop that included intensified U.S.-China trade and technology tensions as well as prolonged uncertainty on Brexit, momentum in global activity remained soft in the first half of 2019. From a sectoral perspective, service sector activity has held up, but the slowdown in global manufacturing activity, which began in early 2018, has continued, reflecting weak business spending and consumer purchases of durable goods. Weak trade prospects, to an extent reflecting trade tensions, in turn create headwinds for investment. According to the IMF, global growth is forecast at 3.2% for 2019, improving to 3.5% in 2020. The projected growth pickup in 2020 is precarious, presuming stabilisation in currently stressed emerging market and developing economies and progress towards resolving trade policy differences. According to a report dated 26 July 2019 in the Financial Times (the "FT"), the loss of confidence in manufacturers has dragged down growth as a whole. The threat of prolonged dislocation of international commerce from a trade war, on top of a recovery that was already starting to look tired, has put policymakers back on alert.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Future Outlook *(Continued)*

China's economy grew by 6.2% in the second quarter, down from 6.4% in the first quarter and its lowest rate since records began in 1992, reflecting not only the shock from the protracted trade war with the U.S. but also the difficulties Beijing is facing in resolving long-standing economic structural issues. The figure falls within the range of Beijing's target growth rate for the year between 6.0% and 6.5% and was generally expected. However, the Chinese economy is likely to weaken further in the second half. To shore up growth and meet the government's growth target, economists and analysts expect China to lean largely on additional fiscal measures in the second half, though it could also ease financial costs to boost lending (according to reports dated 15 and 19 July 2019 in the South China Morning Post (the "SCMP") and 15 July 2019 in the FT). According to the IMF, the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already in the midst of a structural slowdown and needed regulatory strengthening to rein in high dependence on debt. With policy stimulus expected to support activity in the face of the adverse external shock, the IMF forecast the Chinese economy to grow by 6.2% in 2019 and 6.0% in 2020.

Given large gaps between the U.S. and Chinese positions, it remains uncertain whether a trade deal can be reached by the end of the year. Uncertainty is causing businesses to postpone decisions, hurting investment and consumptions. But if a deal does not happen and tensions escalate further, China's GDP growth would slow because of a decline in export and lower investment in manufacturing. Manufacturing investment, particularly from the private sector, is a major contributor to China's economy. As the trade war bites, many Chinese manufactures are considering moving their factories out of China to avoid the U.S. tariffs. China's manufacturing industry remained weak in July 2019, with the official purchasing managers' index ("PMI") rising slightly to 49.7 from 49.4 in both June and May 2019, but the official PMI was still in contractionary territory, the fifth month of seven this year. The U.S.-China trade war hangs over the manufacturing sector. A slowing China is hampering the rest of Asia, while Japan has hit South Korea's semiconductor industry with sanctions and the "white list" removal as part of a row over compensation for forced labor during the second world war (according to reports dated 30 June, 10 and 31 July 2019 in the SCMP, and 2 July and 2 August 2019 in the FT).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Future Outlook (Continued)

The global tariff battle since mid-2018 is expected to continue and the recent tariff dispute between Japan and South Korea regarding raw materials in the semiconductor industry will affect the Group more importantly in sourcing raw materials for the Group's electronic components products. On one hand, customer orders have already been and will be affected by the uncertainties driven by the global tariff battle, and on the other hand, production will also be affected by the shortage of raw materials. The Group needs to take extra caution in observing the development of the tariff battle and responding to the change in the market from time to time in order to minimise its impact on the Group.

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

As at 30 June 2019, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required (i) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

Name of Director	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Huang Hanshui (Note)	Beneficial owner	4,341,394	0.52%

Note: Mr. Huang Hanshui, an executive Director, has a derivative interest in 4,341,394 shares pursuant to share options granted to him on 6 December 2010.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(Continued)*

Save as disclosed above, as at 30 June 2019, none of the Directors, the Chief Executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO), or which had to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, the register of substantial shareholders of the Company maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain Directors and the Chief Executives, the following shareholder of the Company ("Shareholder(s)") had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of substantial Shareholder	Capacity	Number of shares and underlying shares held	Percentage of shareholding
Mr. Li Weimin (Note)	Beneficial owner	952,863,576	113.41%

Note: Mr. Li Weimin is interested in 952,863,576 shares, consisting of (i) an interest in 232,863,576 shares beneficially owned and held in his own name; and (ii) a derivative interest in 720,000,000 conversion shares to be allotted and issued upon full conversion of the outstanding convertible notes issued to him by the Company with an aggregate principal amount of HK\$158,400,000.

Save as disclosed above, the Company had not been notified any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 30 June 2019.

## SHARE OPTION SCHEME

On 8 June 2012, the Company adopted a new share option scheme (the “2012 Scheme”) under which the Board may, at its discretion, grant options to eligible participants under the 2012 Scheme. The Board is able to grant options under the Scheme carrying the right to subscribe for a maximum of 84,017,421 shares, representing 10% of the total number of shares in issue as at the date of the annual general meeting of the Company held on 10 June 2019.

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

Participants	Date of grant	Exercise price per share	Number of share options outstanding at 1 January 2019	Adjusted exercise price per share (Note 2)	Number of share options outstanding at 30 June 2019 (Note 2)
<b>Director</b>					
Mr. Huang Hanshui	6 December 2010	HK\$0.305	86,827,895	HK\$6.10	4,341,394
<b>Customers, suppliers and other eligible persons (in aggregate)</b>	6 December 2010 30 November 2011	HK\$0.305 HK\$0.098	86,827,895 226,284,200	HK\$6.10 HK\$1.96	4,341,394 11,314,210
			399,939,990		19,996,998
Exercisable at the end of the Reporting Period					19,996,998
Weighted average exercise price			HK\$0.188		HK\$3.76

Notes:

1. The share options outstanding at 30 June 2019 had an exercisable period of ten years from the date of grant.
2. With effect from 23 May 2019, as a result of the Share Consolidation, adjustments to the share options granted to certain eligible participants under the share option scheme of the Company adopted on 28 November 2002 (terminated on 8 June 2012) (the “2002 Scheme”) were required under the terms and conditions of the 2002 Scheme. For details, please refer to the announcements of the Company dated 23 April and 22 May 2019, as well as the circular of the Company dated 6 May 2019.
3. No share options were granted, exercised, cancelled or lapsed during the Reporting Period.

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

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

## **CORPORATE GOVERNANCE PRACTICES**

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

Under the Code Provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The duties and responsibilities of the chief executive were shared among the members of the Board during the Reporting Period. Following the resignation of Mr. Wang Zhaofeng as an executive Director and the chairman with effect from 24 June 2019, the duties and responsibilities of the chairman were shared among the members of the Board. In view of the size of operation of the Group, the Board considers that it will be suitable for implementing the Company's strategies under these arrangements. The Board shall review these arrangements from time to time to ensure appropriate and timely action is taken to meet changing circumstances.

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE REVIEW

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

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

## APPRECIATION

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

On behalf of the Board  
**Ruixin International Holdings Limited**  
**Huang Hanshui**  
*Executive Director*

Hong Kong, 30 August 2019

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Revenue	4	<b>138,247</b>	251,645
Cost of sales		<b>(134,974)</b>	(238,977)
Gross profit		<b>3,273</b>	12,668
Other income		<b>144</b>	4
Distribution costs		<b>(8,621)</b>	(12,044)
Administrative expenses		<b>(23,655)</b>	(22,906)
Share of results of joint ventures		–	(3)
Finance costs	5	<b>(7,633)</b>	(8,258)
Loss before taxation		<b>(36,492)</b>	(30,539)
Income tax expense	6	–	–
Loss for the period attributable to owners of the Company	7	<b>(36,492)</b>	(30,539)
<b>Loss per share (in Hong Kong cents)</b>	9		(Restated)
Basic and diluted		<b>(4.34)</b>	(4.40)

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

For the six months ended 30 June 2019

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Loss for the period	<u>(36,492)</u>	<u>(30,539)</u>
Other comprehensive expenses for the period Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	<u>(155)</u>	<u>(287)</u>
<b>Total comprehensive expenses for the period attributable to owners of the Company</b>	<u><b>(36,647)</b></u>	<u><b>(30,826)</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	25,490	20,321
Right-of-use assets		11,553	–
Interests in joint ventures	11	1,225	1,225
		<u>38,268</u>	<u>21,546</u>
<b>Current assets</b>			
Inventories		34,317	67,371
Trade receivables	12	92,560	90,083
Prepayments, deposits and other receivables		7,976	4,354
Deposits in other financial institutions		446	446
Bank balances and cash		28,025	30,724
		<u>163,324</u>	<u>192,978</u>
<b>Current liabilities</b>			
Trade payables	13	33,309	27,300
Lease liabilities		8,306	–
Other payables and accruals		7,077	7,839
Amount due to a joint venture		2,450	2,453
		<u>51,142</u>	<u>37,592</u>
<b>Net current assets</b>		<u>112,182</u>	<u>155,386</u>
<b>Total assets less current liabilities</b>		<u>150,450</u>	<u>176,932</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 30 June 2019

	Notes	30 June 2019 HK\$'000 (Unaudited)	31 December 2018 HK\$'000 (Audited)
<b>Non-current liabilities</b>			
Employee benefits		15	15
Lease liabilities		4,173	–
Convertible notes	14	115,791	109,053
		<b>119,979</b>	109,068
<b>Net assets</b>		<b>30,471</b>	67,864
<b>Capital and reserves</b>			
Share capital	15	168,035	168,035
Reserves		(137,564)	(100,171)
<b>Total equity</b>		<b>30,471</b>	67,864

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note a) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve (note b) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2019, as previously reported	168,035	2,374,265	5,800	21,668	755	41,814	47,743	(2,592,216)	67,864
Effect of changes in accounting policies	-	-	-	-	-	-	-	(746)	(746)
At 1 January 2019, as restated	168,035	2,374,265	5,800	21,668	755	41,814	47,743	(2,592,962)	67,118
Loss for the period	-	-	-	-	-	-	-	(36,492)	(36,492)
Other comprehensive expense for the period	-	-	-	-	(155)	-	-	-	(155)
Total comprehensive expenses for the period	-	-	-	-	(155)	-	-	(36,492)	(36,647)
At 30 June 2019 (unaudited)	168,035	2,374,265	5,800	21,668	600	41,814	47,743	(2,629,454)	30,471

For the six months ended 30 June 2018

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (note a) HK\$'000	Share-based compensation reserve HK\$'000	Foreign exchange reserve HK\$'000	Convertible notes reserve HK\$'000	Other reserve (note b) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2018, as previously reported	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,544,953)	4,328
Effect of changes in accounting policies	-	-	-	-	-	-	-	(129)	(129)
At 1 January 2018, as restated	138,892	2,271,283	5,800	21,668	367	78,400	32,871	(2,545,082)	4,199
Loss for the period	-	-	-	-	-	-	-	(30,539)	(30,539)
Other comprehensive expense for the period	-	-	-	-	(287)	-	-	-	(287)
Total comprehensive expenses for the period	-	-	-	-	(287)	-	-	(30,539)	(30,826)
At 30 June 2018 (unaudited)	138,892	2,271,283	5,800	21,668	80	78,400	32,871	(2,575,621)	(26,627)

Notes:

- The contributed surplus represents the difference between the nominal value of the shares of the former group's holding company acquired pursuant to a group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.
- Other reserve represents the deemed contribution from the substantial shareholder of the Company in respect of the modification of terms of convertible notes in 2018.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash generated from (used in) operating activities	<b>12,476</b>	(4,614)
Net cash used in investing activities	<b>(10,626)</b>	(3,085)
Net cash used in financing activities	<b>(4,396)</b>	–
Net decrease in cash and cash equivalents	<b>(2,546)</b>	(7,699)
Cash and cash equivalents at beginning of the period	<b>30,724</b>	45,512
Effect of foreign exchange rate changes	<b>(153)</b>	(282)
Cash and cash equivalents at end of the period, representing bank balances and cash	<b>28,025</b>	37,531

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018.

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

HKFRS 16	Leases
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

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

The adoption of HKFRS 16 resulted in changes in the Group’s accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The changes in accounting policies are set out in note 3 below. The application of the new and amendments to HKFRSs in the current interim period has had no material impact, except as disclosed below, on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

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

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3 below. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 Leases.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The major impacts of the adoption of HKFRS 16 on the Group's condensed consolidated financial statements are described below.

#### ***The Group as lessee***

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 12.85%.

The Group recognises right-of-use assets and measures them at their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

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

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts on adoption of HKFRS 16 Leases *(Continued)*

#### *The Group as lessee (Continued)*

The following table summarises the impact of transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Carrying amount previously reported at 31 December 2018 HK\$'000	Impact on adoption of HKFRS 16 HK\$'000	Carrying amount as restated at 1 January 2019 HK\$'000
Right-of-use assets	–	14,173	14,173
Lease liabilities	–	(14,919)	(14,919)
Accumulated losses	(2,592,216)	(746)	(2,592,962)

Note: As at 1 January 2019, right-of-use assets were measured at an amount equal to carrying amount as if HKFRS 16 had been applied since the commencement date. Any difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of accumulated losses.

The following table summarises the impact on transition to HKFRS 16 on accumulated losses at 1 January 2019.

	Accumulated losses HK\$'000
Balance at 31 December 2018, as originally stated	(2,592,216)
Adoption of HKFRS 16	(746)
Balance at 1 January 2019 as restated	<u>(2,592,962)</u>

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

For the six months ended 30 June 2019

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## 3. CHANGE IN ACCOUNTING POLICIES

### Leases

#### ***Definition of a lease***

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

#### ***The Group as lessee***

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

For the six months ended 30 June 2019

## 3. CHANGE IN ACCOUNTING POLICIES *(Continued)*

### Leases *(Continued)*

#### *The Group as lessee (Continued)*

##### Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

For the six months ended 30 June 2019

## 3. CHANGE IN ACCOUNTING POLICIES *(Continued)*

### Leases *(Continued)*

#### **The Group as lessee** *(Continued)*

#### Lease liabilities *(Continued)*

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

#### Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

For the six months ended 30 June 2019

## 3. CHANGE IN ACCOUNTING POLICIES *(Continued)*

### Leases *(Continued)*

#### *The Group as lessee (Continued)*

##### Right-of-use assets *(Continued)*

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment losses on tangible assets" policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

##### Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

For the six months ended 30 June 2019

### 4. REVENUE AND SEGMENT INFORMATION

As set out in the Company's annual report for the year ended 31 December 2018, the Group is principally engaged in the manufacturing and trading of electronic and electrical parts and components. The Group's operation is attributable to a single reportable and operating segment under HKFRS 8 and no segment information is presented. No operating segments have been aggregated in arriving at the reportable segment of the Group.

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

### 5. FINANCE COSTS

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Imputed interest expenses on convertible notes	6,738	8,258
Interest expense on lease liabilities	895	—
	<b>7,633</b>	<b>8,258</b>

### 6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2019 and 2018 as the Group has no assessable profits arising in Hong Kong for both reporting periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. For the six months ended 30 June 2019 and 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

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

For the six months ended 30 June 2019

### 6. INCOME TAX EXPENSE *(Continued)*

Under the Law of the People's Republic of China (the "PRC" or "China") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiary registered in the PRC is 25% for the six months ended 30 June 2019 and 2018. No provision for the Enterprise Income Tax has been made for the six months ended 30 June 2019 and 2018 as the subsidiary of the Company has no assessable profits for both reporting periods.

Under the Law of Vietnam on Corporate Income Tax, the tax rate of the subsidiary registered in Vietnam is 20% for the six months ended 30 June 2019 and 2018. No provision for the Corporate Income Tax has been made for the six months ended 30 June 2019 and 2018 as the subsidiary of the Company has no assessable profits for both reporting periods.

### 7. LOSS FOR THE PERIOD

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Bank interest income	(7)	(4)
Depreciation of property, plant and equipment	5,467	6,237
Depreciation of right-of-use assets	3,680	–
Net exchange loss	301	339
Net gain on disposals of property, plant and equipment	(8)	–
Reversal of impairment on inventories	(118)	–

### 8. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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

For the six months ended 30 June 2019

### 9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK\$36,492,000 (six months ended 30 June 2018: approximately HK\$30,539,000) and the weighted average number of approximately 840,174,000 (six months ended 30 June 2018: approximately 694,460,000, as adjusted to reflect the effect of the Share Consolidation as defined in note 15) ordinary shares in issue during the reporting period.

For the six months ended 30 June 2019 and 2018, the diluted loss per share is the same as the basic loss per share.

The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 did not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price for shares. The computation of diluted loss per share for the six months ended 30 June 2019 and 2018 did not assume the conversion of the Company's outstanding convertible notes as the conversion of convertible notes would result in a decrease in loss per share.

### 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group spent approximately HK\$10,638,000 on the addition of plant and machinery and leasehold improvements and others (six months ended 30 June 2018: approximately HK\$3,077,000 on the addition of plant and machinery and others).

Property, plant and equipment with carrying value of approximately HK\$nil were disposed of by the Group during the six months ended 30 June 2019 for cash proceeds of approximately HK\$8,000, resulting in a net gain on disposals of approximately HK\$8,000. No property, plant and equipment were disposed of by the Group during the six months ended 30 June 2018.

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

For the six months ended 30 June 2019

### 11. INTERESTS IN JOINT VENTURES

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Cost of unlisted investments in joint ventures	<b>5,998</b>	5,998
Share of post-acquisition losses and other comprehensive expenses and impairment loss	<b>(4,773)</b>	(4,773)
	<b>1,225</b>	1,225

Details of each of the Group's joint ventures, which are accounted for using the equity method in the condensed consolidated financial statements, as at 30 June 2019 and 31 December 2018, are as follows:

Name	Form of business structure	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest and voting power held by the Group				Principal activities
					2019		2018		
					Direct	Indirect	Direct	Indirect	
Semtech International (B.V.I.) Limited	Corporation	British Virgin Islands	Hong Kong	Ordinary	50%	-	50%	-	Investment holding
Semtech Electronics Limited ("Semtech Electronics")	Corporation	Hong Kong	Hong Kong	Ordinary	-	50%	-	50%	Trademark holding

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

For the six months ended 30 June 2019

### 12. TRADE RECEIVABLES

The Group allows an average credit period of 30 to 120 days (31 December 2018: 30 to 120 days) to its trade customers.

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

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Current	<b>85,328</b>	83,192
Overdue:		
– within 3 months	<b>6,079</b>	6,887
– 4 – 6 months	<b>762</b>	4
– 7 – 12 months	<b>391</b>	–
	<b>7,232</b>	6,891
	<b>92,560</b>	90,083

### 13. TRADE PAYABLES

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

	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
Current	<b>33,219</b>	24,142
Overdue:		
– within 3 months	<b>90</b>	1,310
– 4 – 6 months	<b>–</b>	1,848
	<b>33,309</b>	27,300

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

For the six months ended 30 June 2019

### 14. CONVERTIBLE NOTES

As at 30 June 2019 and 31 December 2018, the principal amount of convertible notes that remained outstanding was HK\$158,400,000. On 14 November 2014, the Company and the convertible notes holder entered into a deed of variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the outstanding convertible notes with an aggregate principal amount of HK\$302,400,000 would be extended from 15 November 2014 to 31 December 2016; and (ii) the original conversion price of HK\$0.12 per share would be adjusted to the conversion price of HK\$0.035 per share. Save for the above alterations, all other terms and conditions of the outstanding convertible notes remained unchanged. On 9 January 2015, the relevant ordinary resolution was duly passed at the special general meeting and the extension of the maturity date and the adjustment of the conversion price of the outstanding convertible notes became effective. For details, please refer to the announcements of the Company dated 14 November 2014, 17 November 2014 and 9 January 2015, as well as the circular of the Company dated 19 December 2014 and the Company's annual report for the year ended 31 December 2015.

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

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

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

For the six months ended 30 June 2019

### 14. CONVERTIBLE NOTES *(Continued)*

On 12 November 2018, the Company and the convertible notes holder entered into a deed of further variation, pursuant to which it was agreed that, subject to the fulfillment of conditions precedent, (i) the maturity date of the remaining convertible notes with an aggregate principal amount of HK\$158,400,000 would be extended from 31 January 2019 to 31 January 2022; and (ii) the conversion price of HK\$0.035 per share would be adjusted to the conversion price of HK\$0.011 per share. Save for the above alterations, all other terms and conditions of the remaining convertible notes remained unchanged. On 28 December 2018, the relevant ordinary resolution was duly passed at the special general meeting. On 31 December 2018, the extension of the maturity date and the adjustment of the conversion price of the remaining convertible notes became effective. For details, please refer to the announcements of the Company dated 12 November 2018, 28 December 2018 and 31 December 2018, as well as the circular of the Company dated 11 December 2018 and the Company's annual report for the year ended 31 December 2018.

The extension of the maturity date and the adjustment of the conversion price resulted in the extinguishment of the financial liability of the convertible notes and related equity component and the recognition of new financial liability and equity components. On 31 December 2018, the carrying values of liability component and equity component of the convertible notes immediately before the modification were approximately HK\$157,541,000 and HK\$47,690,000 respectively. According to a valuation report issued by an independent valuer not connected with the Group, the fair values of the new liability component and equity component immediately following the modification are approximately HK\$109,053,000 and HK\$41,814,000 respectively. These caused an increase of approximately HK\$47,743,000 (net of the transaction costs of approximately HK\$745,000) in other reserve in the consolidated statement of changes in equity, a transfer of approximately HK\$32,871,000 between other reserve and accumulated losses, and a transfer of a net amount of approximately HK\$5,876,000 between the convertible notes reserve and accumulated losses with no profit or loss impact during the year ended 31 December 2018.

Convertible notes of the Company with an aggregate principal amount of HK\$102,000,000 were converted into 2,914,285,714 ordinary shares of HK\$0.01 each at a conversion price of HK\$0.035 per share on 31 December 2018.

As a result of the Share Consolidation (as defined in note 15) and under the terms and conditions of the convertible notes, the conversion price of the outstanding convertible notes was adjusted from HK\$0.011 per share to HK\$0.22 per share with effect from the close of business in Hong Kong on 22 May 2019. Based on the adjusted conversion price of HK\$0.22 per share, the outstanding convertible notes with an aggregate principal amount of HK\$158,400,000 will be convertible into 720,000,000 ordinary shares of HK\$0.20 each.

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

For the six months ended 30 June 2019

### 14. CONVERTIBLE NOTES *(Continued)*

The imputed interest charged on the convertible notes for the six months ended 30 June 2019 amounted to approximately HK\$6,738,000 (six months ended 30 June 2018: approximately HK\$8,258,000).

### 15. SHARE CAPITAL

	Number of shares '000	HK\$'000
Authorised ordinary shares of HK\$0.20 (31 December 2018: HK\$0.01) each:		
At 1 January 2018	30,000,000	300,000
Increase in authorised share capital (note a)	<u>30,000,000</u>	<u>300,000</u>
At 31 December 2018	60,000,000	600,000
Share consolidation (note c)	<u>(57,000,000)</u>	<u>–</u>
At 30 June 2019	<u>3,000,000</u>	<u>600,000</u>
Issued and fully paid ordinary shares of HK\$0.20 (31 December 2018: HK\$0.01) each:		
At 1 January 2018	13,889,199	138,892
Issue of new shares upon conversion of convertible notes (note b)	<u>2,914,286</u>	<u>29,143</u>
At 31 December 2018	16,803,485	168,035
Share consolidation (note c)	<u>(15,963,311)</u>	<u>–</u>
At 30 June 2019	<u>840,174</u>	<u>168,035</u>

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

For the six months ended 30 June 2019

### 15. SHARE CAPITAL *(Continued)*

Notes:

- (a) On 28 December 2018, the authorised share capital of the Company increased from HK\$300,000,000 divided into 30,000,000,000 ordinary shares of HK\$0.01 each to HK\$600,000,000 divided into 60,000,000,000 ordinary shares of HK\$0.01 each by the creation of additional 30,000,000,000 new ordinary shares of HK\$0.01 each which ranked *pari passu* with the existing ordinary shares of HK\$0.01 each in all respects upon allotment and issue.
- (b) On 31 December 2018, convertible notes of the Company with an aggregate principal amount of HK\$102,000,000 were converted into 2,914,285,714 new ordinary shares of HK\$0.01 each at a conversion price of HK\$0.035 per share. These new ordinary shares of HK\$0.01 each issued ranked *pari passu* with other ordinary shares of HK\$0.01 each then in issue in all aspects. Details of the convertible notes are set out in note 14.
- (c) On 22 May 2019, an ordinary resolution was duly passed at the special general meeting and every twenty issued and unissued ordinary shares with a par value of HK\$0.01 each in the share capital of the Company were consolidated into one ordinary share with a par value of HK\$0.20 each (each a "Consolidated Share") (the "Share Consolidation") with effect from 23 May 2019. Such Consolidated Shares rank *pari passu* in all respects with each other.

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

For the six months ended 30 June 2019

## 16. RELATED PARTY TRANSACTIONS

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

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

	<b>Amounts due to related parties</b>	
	<b>30 June 2019 HK\$'000 (Unaudited)</b>	31 December 2018 HK\$'000 (Audited)
A joint venture (note)	<b>2,450</b>	2,453
Directors' emoluments payables (included in other payables) (note)	<b>576</b>	956

Note:

The amount due to a joint venture and Directors' emoluments payables were unsecured, interest-free and repayable on demand.

- (b) As set out in note 11, Semtech Electronics is the registered owner of various trademarks. Those trademarks are provided for the Group's use at nil consideration.
- (c) During the six months period ended 30 June 2019, remuneration of approximately HK\$840,000 (six months ended 30 June 2018: HK\$825,000) were paid or payable to a close family member of a Director as the position of a director of certain subsidiaries of the Group. In addition, remuneration of approximately HK\$1,324,000 (six months ended 30 June 2018: HK\$1,123,000) were paid or payable to other close family members of the above-mentioned Director as staff costs of certain subsidiaries of the Group. Remuneration of approximately HK\$345,000 (six months ended 30 June 2018: nil) were payable to a close family member of a substantial shareholder of the Company as the position of the chairman of the Vietnam subsidiary and a director of a subsidiary of the Group.

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

For the six months ended 30 June 2019

### 16. RELATED PARTY TRANSACTIONS (Continued)

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

	Six months ended 30 June	
	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)
Short-term benefits	4,283	4,480
Post-employment benefits	118	117
	<b>4,401</b>	<b>4,597</b>

### 17. CONTINGENT LIABILITY

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

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

### 18. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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