



On Real International Holdings Limited

安悦國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8245

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2018

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FINANCIAL HIGHLIGHTS

- Revenue of the Company for the three months ended 30 June 2018 amounted to approximately HK\$74.6 million, representing a decrease of approximately 3.5% as compared with that of approximately HK\$77.3 million for the three months ended 30 June 2017.
- Profit attributable to the owner of the Company for the three months ended 30 June 2018 amounted to approximately HK\$2.4 million compared with loss of approximately HK\$4.4 million for the three months ended 30 June 2017.
- Basic and diluted earnings per share for the three months ended 30 June 2018 amounted to approximately HK cents 0.06 (losses per share for the three months ended 30 June 2017: HK cents 0.11).
- The Directors do not recommend the payment of any dividend in respect of the three months ended 30 June 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2018

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017 which have been reviewed and approved by the audit committee of the Company (the “**Audit Committee**”), as follows:

		Three months ended 30 June	
	<i>Note</i>	2018	2017
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	74,605	77,342
Cost of sales		(66,962)	(71,723)
Gross profit		7,643	5,619
Other income	4	2,135	712
Other losses and gains	5	(356)	(23)
Selling and distribution expenses		(711)	(947)
Administrative expenses		(5,539)	(9,458)
Finance costs	7	(237)	(170)
Profit (Loss) before income tax		2,935	(4,267)
Income tax expense	8	(501)	(130)
Profit (Loss) for the period		2,434	(4,397)
Profit (Loss) for the period attributable to:			
Owners of the Company	6	2,382	(4,397)
Non-controlling interests		52	—
Other comprehensive income (expense) Item that may be reclassified subsequently to profit or loss:		2,434	(4,397)
Exchange differences arising on translation of foreign operations		775	770

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2018

	Three months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Total comprehensive income for the period	<u>3,209</u>	<u>(3,627)</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	3,157	(3,627)
Non-controlling interests	<u>52</u>	<u>—</u>
	<u>3,209</u>	<u>(3,627)</u>
Earnings (Loss) per share (HK cents)		
Basic and diluted	<u>0.06</u>	<u>(0.11)</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended 30 June 2018

	Attributable to owners of the Company							Non- controlling interests	Total equity
	PRC					Accumulated loss	Total		
	Share Capital	Share Premium	Capital Reserve	Statutory Reserve	Exchange Reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2018 (Audited)	4,800	75,468	(5,826)	5,190	2,751	(8,401)	73,982	(5)	73,977
Profit for the period	—	—	—	—	—	2,382	2,382	52	2,434
Other comprehensive income									
Exchange difference arising on translation of foreign operations	—	—	—	—	775	—	775	—	775
Total comprehensive income	—	—	—	—	775	2,382	3,157	52	3,209
Balance at 30 June 2018 (Unaudited)	<u>4,800</u>	<u>75,468</u>	<u>(5,826)</u>	<u>5,190</u>	<u>3,526</u>	<u>(6,019)</u>	<u>77,139</u>	<u>47</u>	<u>77,186</u>
Balance at 1 April 2017 (Audited)	4,800	75,468	(5,826)	4,472	1,303	(8,573)	71,644	—	71,644
Loss for the period	—	—	—	—	—	(4,397)	(4,397)	—	(4,397)
Other comprehensive income									
Currency translation differences	—	—	—	—	770	—	770	—	770
Total comprehensive income/(loss)	—	—	—	—	770	(4,397)	(3,627)	—	(3,627)
Balance at 30 June 2017 (Unaudited)	<u>4,800</u>	<u>75,468</u>	<u>(5,826)</u>	<u>4,472</u>	<u>2,073</u>	<u>(12,970)</u>	<u>68,017</u>	<u>—</u>	<u>68,017</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 CORPORATION INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

(a) General information

The Company was incorporated in the Cayman Islands on 30 June 2014 as an exempted company with limited liability under Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised), of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is Office C, 27/F., Billion Plaza 2, 10 Cheung Yue Street, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are, designing, trading and manufacturing of two-way radios, baby monitors, electronic components and other communication devices and servicing business of the above products.

The Company was listed on the GEM on 30 September 2015.

This unaudited condensed consolidated financial information is presented in thousands of Hong Kong dollars (“**HKS’000**”), unless otherwise stated.

(b) Basis of presentation

The presentation applied are consistent with those of the consolidated annual financial statements for the year ended 31 March 2018, as described in those annual financial statements.

2 BASIC OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

This unaudited condensed consolidated first quarterly financial information for the three months ended 30 June 2018 has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by HKICPA.

The unaudited condensed consolidated first quarterly financial information should be read in conjunction with the consolidated annual financial statements for the year ended 31 March 2018, preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) The following new and amended standards have been adopted by the Group for the first time for the financial period beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The adoption of the above HKFRSs did not have any significant financial impact on the unaudited condensed consolidated financial statements.

(b) The following new standards and revisions to standards have been issued, but are not effective for the financial year beginning 1 January 2018 and have not been early adopted by the Group:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2021.

³ Effective for annual periods beginning on or after a date to be determined.

The Group will apply the above HKFRSs when they become effective. The Group is in the process of making an assessment of the impact of the above HKFRSs.

3 SEGMENT INFORMATION

Total revenue recognised during the respective period are as follows:

	Three months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Sales of goods	74,204	71,006
Servicing	401	6,336
	<u>74,605</u>	<u>77,342</u>

The revenue from external parties is derived from numerous external customers and the revenue reported to the management is measured in a manner consistent with that in the condensed consolidated income statements.

The Group is principally engaged in the designing, trading and manufacturing of two-way radios, baby monitors and other products and servicing business of the above products.

The executive directors have been identified as the chief operating decision makers. The executive directors have determined the operating segments based on the reports reviewed by them that are used to make strategic decisions.

Management considers the business from a product perspective whereby management assesses the performance of two-way radios, baby monitors, and other products and servicing business based on gross profit arising in the course of the ordinary activities which are recurring in nature.

The segment information provided to the executive directors for the reportable segments for the three months ended 30 June 2018 and 30 June 2017 is as follows:

	Two-way radios	Baby monitors	Service business	Other products (Note (i))	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the three months ended					
30 June 2018 (Unaudited)					
Total segment revenue (from external customers)	<u>47,923</u>	<u>5,792</u>	<u>401</u>	<u>20,489</u>	<u>74,605</u>
Segment results for the period	<u>5,878</u>	<u>354</u>	<u>384</u>	<u>1,027</u>	<u>7,643</u>
Other segment items:					
Amortisation of intangible assets	147	442	—	—	589
Depreciation of property, plant and equipment	<u>373</u>	<u>11</u>	—	<u>251</u>	<u>635</u>
For the three months ended					
30 June 2017 (Unaudited)					
Total segment revenue (from external customers)	<u>52,230</u>	<u>7,522</u>	<u>6,336</u>	<u>11,254</u>	<u>77,342</u>
Segment results for the period	<u>4,256</u>	<u>639</u>	<u>496</u>	<u>228</u>	<u>5,619</u>
Other segment items:					
Amortisation of intangible assets	165	496	—	—	661
Depreciation of property, plant and equipment	<u>544</u>	<u>18</u>	<u>50</u>	<u>132</u>	<u>744</u>

Note (i): Other products include transistors, integrated circuits, plastic casings, rechargeable battery chargers, ultrasonic cleansers, inductive emergency flashlights, LCD display module and accessories such as headsets, belt clips, chargers and power adaptors, etc.

A reconciliation of total segment result to the profit/(loss) for the respective period is provided as follows:

	Three months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Segment results	<u>7,643</u>	<u>5,619</u>
Other income	2,135	712
Other losses and gains	(356)	(23)
Selling, distribution and administrative expenses	(6,250)	(10,405)
Finance cost	<u>(237)</u>	<u>(170)</u>
Profit/(Loss) before income tax	<u>2,935</u>	<u>(4,267)</u>

An analysis of revenue by geographic location, based on shipping destination, is set out below:

	Three months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
The United States of America (the “US”)	34,328	36,137
Europe (<i>Note 1</i>)	3,501	5,884
The Netherlands	3,118	10,060
Asia (<i>Note 2</i>)	19,893	10,533
The United Kingdom (“UK”)	1,103	3,189
Germany	12,553	7,931
Others (<i>Note 3</i>)	109	3,608
	74,605	77,342

Note 1: Europe includes but is not limited to France, Italy and Belgium but excludes the United Kingdom of Great Britain and Northern Ireland, Germany and the Netherlands.

Note 2: Asia includes but is not limited to the People’s Republic of China (the “PRC”) and Hong Kong.

Note 3: Others include but is not limited to Brazil, Canada and Russia.

Non-current assets are located in the PRC and Hong Kong.

4 OTHER INCOME

	Three months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Bank interest income	108	100
Interest income charged to customers	—	22
Staff quarter rental income	13	22
Gain on disposal of non-current assets	—	246
Gain on early repayment of bond payables	514	—
Sale of scrap	145	147
Machinery rental income	277	126
Others	1,078	49
	2,135	712

5 OTHER (LOSSES) AND GAINS

	2018 HK\$'000 (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Exchange gains, net	(297)	34
Fair value losses on financial asset at fair value through profit or loss	<u>(59)</u>	<u>(57)</u>
	<u>(356)</u>	<u>(23)</u>

6 PROFITS FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

	Three months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Cost of inventories recognised as expenses	48,115	46,664
Employee benefit expenses	7,620	13,105
Subcontracting fees	9,649	12,794
Amortisation of intangible assets	589	661
Depreciation of property, plant and equipment	635	744
Operating leases		
— Office premises and staff quarters	394	438
— Factories	539	460
— Plant and machinery	<u>159</u>	<u>159</u>

7 FINANCE COSTS

	2018 HK\$'000 (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Interest on:		
— Bank and other borrowings	<u>237</u>	<u>170</u>

8 INCOME TAX EXPENSE

Hong Kong profit tax has been provided at the rate of 16.5% (2017: 16.5%) based on the estimated assessable profits for the three months ended 30 June 2018. The PRC enterprise income tax is provided at the rate of 25% (2017: 25%) during the three months ended 30 June 2018.

The amount of income tax expense charged to the condensed consolidated income statements represents:

	Three months ended 30 June	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
PRC income tax	21	130
Hong Kong profits tax	480	—
	<u>501</u>	<u>130</u>

9 EARNINGS/(LOSSES) PER SHARE

(a) Basic

Basic earnings/(losses) per share is calculated by dividing the earnings/(losses) for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during each of the three months ended 30 June 2018 and 2017.

	Three months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Earnings/(losses) attributable to owners of the Company (<i>HK\$'000</i>)	2,382	(4,397)
Weighted number of ordinary shares in issue (<i>'000</i>)	3,840,000	3,840,000
Basic earnings/(losses) per share (<i>HK cents per share</i>)	<u>0.06</u>	<u>(0.11)</u>

(b) Diluted

Diluted earnings/(losses) per share is the same as basic earnings/(losses) per share due to the absence of dilutive potential ordinary shares during the respective periods.

10 DIVIDENDS

The Directors do not recommend the payment of any dividend in respect of the three months ended 30 June 2018 and 2017.

11 RELATED-PARTY TRANSACTIONS

For the purposes of these condensed consolidated financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the three months ended 30 June 2018 and 30 June 2017.

(a) Transactions with related parties

	Three months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Rental expenses charged by a related company	<u>467</u>	<u>392</u>

Note: Rental expenses charged was paid to Xinxing On Time Electronics Limited (“Xinxing On Time”). Mr. Tam, the director of the Company, has direct interest in Xinxing On Time.

(b) Key management compensation

Key management includes directors (executive and non-executive) and the senior management of the Group. The compensation paid or payable to key management for employee services is disclosed as follows:

	Three months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Wages, salaries and allowances	604	1,534
Retirement benefit costs	<u>18</u>	<u>18</u>
	<u>622</u>	<u>1,552</u>

12 EVENT AFTER REPORT PERIOD

As of the approval date of these unaudited condensed consolidated financial statements, the Group has no significant event after the reporting period which need to be disclosed.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of Directors (the “**Board**”) of the Company is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 30 June 2018, together with the unaudited comparative figures for the corresponding period in 2017.

BUSINESS REVIEW

The Group is a two-way radio product designer and manufacturer established in 2001. We derive the revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis.

The revenue decreased from approximately HK\$77.3 million for the three months ended 30 June 2017 to approximately HK\$74.6 million for the three months ended 30 June 2018, representing a decrease of approximately 3.5%. The major reason is the decrease of the Group’s revenue of two-way radios and baby monitors for the three months ended 30 June 2018. Such decrease was mainly due to the drop of number of purchase orders from customers during the three months ended 30 June 2018.

The revenue of two-way radios decreased by approximately 8.2% from approximately HK\$52.2 million for the three months ended 30 June 2017 to approximately HK\$47.9 million for the three months ended 30 June 2018 mainly due to the drop of number of purchase orders from customers. The revenue of baby monitor decreased by 23.0% from approximately HK\$7.5 million for the three months ended 30 June 2017 to approximately HK\$5.8 million for the three months ended 30 June 2018 mainly due to the decrease in demand of our audio baby monitor products.

The revenue of servicing business significantly decreased by approximately 93.7% from approximately HK\$6.3 million for the three months ended 30 June 2017 to approximately HK\$401 thousand for the three months ended 30 June 2018, mainly due to the decrease in provision of electronic manufacturing servicing business.

The Group’s revenue of other products significantly increased by approximately 82.1% from approximately HK\$11.2 million for the three months ended 30 June 2017 to approximately HK\$20.5 million for the three months ended 30 June 2018 mainly due to start trading of LCD (Liquid Crystal Display) display module during the three months ended 30 June 2018.

The Company will continue to diversify the revenue stream and expand the customer base by expanding product offerings and exploring business opportunity with current and potential customers.

The following tables set forth the breakdowns of the turnover of the Group by product categories for each of the three months ended 30 June 2018 and 2017:

Unaudited						
For the three months ended 30 June						
	2018		2017		Increase (Decrease)	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Two-way radios	47,923	64.2	52,230	67.5	(4,307)	(8.2)
Baby monitors	5,792	7.8	7,522	9.7	(1,730)	(23.0)
Servicing business	401	0.5	6,336	8.2	(5,935)	(93.7)
Other products	20,489	27.5	11,254	14.6	9,235	82.1
	<u>74,605</u>	<u>100.0</u>	<u>77,342</u>	<u>100.0</u>	<u>(2,737)</u>	<u>(3.5)</u>

OUTLOOK

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of LCD (Liquid Crystal Display) display module in the first quarter of 2018.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

On 11 December 2017, On Real Limited (the “**Vendor**”), an indirect wholly-owned subsidiary of the Company, and Smart Tech Development Limited (the “**Purchaser**”) entered into a disposal agreement (the “**Disposal Agreement**”), pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the entire issued share capital in Onward Technology Development Limited, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK\$9.5 million (the “**Disposal**”).

The Disposal is a step to achieve the cost restructuring plan of the Group and to reduce the costs of production and contingent liabilities for the labour cost.

Pursuant to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018), the conditions precedent to the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) shall be satisfied (or as the case may be, waived) on or before 30 June 2018 (the “**Long Stop Date**”), or such other date as the Vendor and the Purchaser may agree in writing. As certain conditions precedent to the Disposal Agreement have not been satisfied (or as the case may be, waived) on or before 30 June 2018, the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) has ceased and determined. Given that considerable time has elapsed since the date of the Disposal Agreement (as supplemented by the supplemental agreement dated 29 March 2018) and the market condition has changed, the Purchaser decided, and the Vendor agreed, not to further extend the Long Stop Date and proceed with the transaction.

Upon termination of the Disposal Agreement, neither party shall have any obligations and liabilities towards each other thereunder.

Details of the Disposal and the expiry of the Long Stop Date were set out in the Company’s announcements dated 11 December 2017, 5 January 2018, 5 February 2018, 5 March 2018, 29 March 2018, 7 May 2018, 4 June 2018 and 3 July 2018.

Below are the progress of the implementation of our objectives and strategies as disclosed in our prospectus (the “**Prospectus**”) dated 18 September 2015:

- i) Strengthen our product portfolio: we are going to develop new high-end two-way radio and baby monitor products with new features and technologies. The high-end commercial two-way radio for European market was launched in third quarter of 2017. A new series of analog radio with new outlook has been launched by the end of 2017. Another high-end marine two-way radio is expected to be launched in the coming year. We are also looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.
- ii) Enhance our information management system: We will keep evaluating our information management system, upon the market condition, we will target to improve our information system and procedures to cope with the communication between our customers and suppliers.
- iii) Strengthen our marketing efforts: we continue to maintain our market presence and expand our sales channels and new potential customers globally by introducing new products.

In additional to the objectives and strategies as disclosed in Prospectus, we are proceeding costs migration of our fixed overhead in manufacturing into a variable costs in order to increase the flexibility of operation the business.

PROSPECT

Our business objectives are to grow our existing business by strengthen our product portfolio, enhancing our information management system and strengthen our marketing efforts. We have continued reviewing our business and manufacturing processes to implement cost saving measures in operations. Riding on our car camera system product launched last year, the Group is exploring opportunity in electronic component distribution business by starting of trading of LCD (Liquid Crystal Display) display module in the first quarter of 2018.

The Group will continue looking into opportunities to diversify our revenue stream. For instance, we will be exploring the way to leverage our research and development capability to provide design engineering service to our customers. We will also be searching opportunities to leverage our developed sales channels and network for distributing related products.

In coming year, the Group is expecting to deploy more subcontracting arrangement to enhance the flexibility in terms of fixed cost commitment. The subcontracting arrangement may shift outside the People's Republic of China (the "PRC") to diversify the production processes and fulfill the requirement from the customers. We have started trading of electronic component to diversify the revenue stream. We will continue to put effort in developing new model of our products and diversify our revenue streams which are expected to bring growth potential for turnover to the Group and returns to the shareholders of the Company (the "Shareholders").

The Group will continue to put effort in developing new models of our products, and aim to streamline the business and improve overall performance of the Group which are expected to bring growth potential for revenue to the Group and returns to the Shareholders. The Group will be looking at enhancing our business revenue and profitability by introducing new product categories and/or leverage our research and development capability to provide design engineering service to our customers.

Our gross margin and the profitability has been impacted by the exchange rate fluctuation and raw material increment in the financial year. To improve the profitability and compensate the exposure, we have been adjusting our pricing strategy to our customers and our material vendors and expecting some improvement in future.

FINANCIAL REVIEW

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised of raw material cost, direct labour costs and subcontracting fees. Our cost of sales decreased by approximately 7.0% from approximately HK\$71.7 million for the three months ended 30 June 2017 to approximately HK\$67.0 million for the three months ended 30 June 2018, which is in line with the decrease in revenue. The gross margin increased from approximately 7.3% for the three months ended 30 June 2017 to approximately 10.2% for the three months ended 30 June 2018, the increase in the gross margin was mainly due to the result of cost restructuring plan of the Group has been implementing on the fourth quarter of 2017/18.

Selling and distribution expenses

The selling and distribution expenses decreased from approximately HK\$0.9 million for the three months ended 30 June 2017 to approximately HK\$0.7 million for the three months ended 30 June 2018, which was mainly due to less transportation expenses incurred compared with the corresponding period in 2017.

Administrative expenses

The administrative expenses decreased from approximately HK\$9.5 million for the three months ended 30 June 2017 to approximately HK\$5.5 million for the three months ended 30 June 2018, which was mainly due to the costs optimization.

Profit attributable to the owners of the Company

Profit attributable to the owner of the Company for the three months ended 30 June 2018 amounted to approximately HK\$2.4 million compared with loss of approximately HK\$4.4 million for the three months ended 30 June 2017, was mainly due to the increase in gross profit of approximately HK\$2.0 million and decrease in selling and distribution expenses and administrative expenses for reasons mentioned in above.

Dividend

The Board does not recommend the payment of a dividend for the three months ended 30 June 2018.

Use of proceeds from the Listing

On 30 September 2015, 120,000,000 ordinary shares of the Company were allotted at HK\$0.57 per placing share pursuant to the Placing (as defined in the Prospectus). The net proceeds from the Placing received by the Company were approximately HK\$30.9 million (after deduction of any related expenses). As at 30 June 2018, the unused

proceeds of approximately HK\$8.5 million were deposited into licensed banks in Hong Kong. The Company intends to continue to apply the remaining net proceeds in accordance with the proposed applications set out above.

During the three months ended 30 June 2018, the net proceeds had been utilized as follows:

	Actual net proceeds <i>HK\$ Million</i>	Amount utilized up to 30 June 2018 <i>HK\$ Million</i>	Balance as at 30 June 2018 <i>HK\$ Million</i>
Strengthen our product portfolio	21.7	15.7	6
Enhance our information management systems	2.4	—	2.4
Strengthen our marketing efforts	4.0	4.0	—
Working capital and other general corporate purposes	2.8	2.7	0.1
	<u>30.9</u>	<u>22.4</u>	<u>8.5</u>
Total	<u>30.9</u>	<u>22.4</u>	<u>8.5</u>

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2018, Mr. Tam Wing Ki (“**Mr. Tam**”), the executive Director and chief executive officer of the Company, and Mr. Gao Hong, the executive director of the Company, had the following interests in the shares and underlying shares of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (“**SFO**”) as recorded in the register required to be kept under section 352 of SFO:

Name of Shareholders	Name of Companies	Capacity	Number of shares and underlying shares	Percentage of shareholding
Mr. Tam	the Company	Beneficial owner	898,176,000	23.39%
Mr. Gao Hong (retired on 25 July 2018)	the Company	Beneficial owner	6,000,000	0.16%

Note: All interests stated above represent long positions.

Save as disclosed herein, as at 30 June 2018, none of the Directors or chief executive of the Company or their associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) (i) 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 each of them has taken or deemed to have taken under the provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange. There were no securities issued by the Group during the three months ended 30 June 2018.

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

As at 30 June 2018, so far as known to the Directors, the following shareholders had interests in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Number of shares	Percentage of shareholding
Solution Smart Holdings Limited (“ Solution Smart ”) (Note 1)	Beneficial owner	1,125,896,000	29.32%
SW Venture Asia Limited (“ SW Venture Asia ”) (Note 1)	Interest in a controlled corporation	1,125,896,000	29.32%
Mr. Yeung Shing Wai (Note 1)	Interest in a controlled corporation	1,125,896,000	29.32%
SMK Investment Company Limited (“ SMK ”) (Note 2)	Beneficial owner	898,176,000	23.39%
Mr. Tam Wing Ki (Note 2)	Interest in a controlled corporation	898,176,000	23.39%
Ms. Tang Yin Ping (“ Ms. Tang ”) (Note 3)	Interest of her child under 18 or spouse/interest of a substantial shareholder’s child under 18 or spouse	898,176,000	23.39%

Notes:

1. Mr. Yeung Shing Wai is the sole beneficial shareholder of SW Venture Asia, which is the sole beneficial shareholder of Solution Smart. Therefore, Mr. Yeung Shing Wai and SW Venture Asia are deemed to be interested in 1,125,896,000 shares of the Company held by Solution Smart under the SFO.
2. Mr. Tam Wing Ki, the Director and chief executive officer of the Company, is the sole beneficial shareholder of SMK. Therefore, Mr. Tam Wing Ki is deemed to be interested in 898,176,000 shares of the Company held by SMK under the SFO.
3. Ms. Tang is the spouse of Mr. Tam Wing Ki. Therefore, Ms. Tang is deemed to be interested in 898,176,000 shares of the Company held by Mr. Tam Wing Ki under the SFO.
4. All interests stated above represent long positions.

Save as disclosed above, the Directors are not aware of any other person who has an interest or short position in the shares or underlying shares (including interest in options, if any) of the Company as recorded in the register required to be kept under section 336 of the SFO as at 30 June 2018.

DIRECTORS' INTEREST IN CONTRACTS

Apart from the transactions disclosed under the heading "Related Party Transactions" as set out in note 11 of this announcement, there were no other contracts of significance in relation to the Group's business to which the Group was a party and which a Director had a material interest, whether directly or indirectly, subsisted during the three months ended 30 June 2018.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the three months ended 30 June 2018, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

CORPORATE GOVERNANCE

The Company is committed to ensure a high standard of corporate governance in the interests of the shareholders and devotes considerable effort to maintain high level of business ethics and corporate governance practices. The Company has complied with the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules throughout the three months ended 30 June 2018. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the three months ended 30 June 2018, except for certain deviations as specified with considered reasons for such deviations as explained below.

Under Code Provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual.

During the three months ended 30 June 2018 under review, the Company has not separated the roles of chairman and chief executive officer of the Company. Mr. Tam is currently performing the roles of chairman and chief executive officer of the Company. Taking into account Mr. Tam is the founder of the Group and has been operating and managing the Group since 2001, the Board considers that the roles of chairman and chief executive officer being performed by Mr. Tam enable more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with code provision, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Except for the deviation from the CG Code as set out above, the Company fully complied with all the Code Provisions throughout the three months ended 30 June 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Group had adopted Rules 5.46 to 5.67 of the GEM Listing Rules (“**Model Code**”) as its own code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings.

Having made specific enquiry with all the Directors and all the Directors of the Company had confirmed compliance with the required standard of dealings set out in the Model Code and the code of conduct for Directors’ securities transactions during the three months ended 30 June 2018.

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

The Company has not redeemed any of its shares during the three months ended 30 June 2018. Neither the Company nor any of its subsidiaries had purchased or sold any of Company’s shares during the three months ended 30 June 2018.

SHARE OPTION SCHEME

The share option scheme of the Company (“**Scheme**”) was adopted pursuant to a resolution passed by the Company’s shareholders on 16 September 2015 (“**Adoption Date**”) for the primary purpose is to attract, retain and motivate talented Participants, to strive for future developments and expansion of the Group. Eligible participants of the Scheme include any employees, any executives, non-executive Directors (including independent non-executive Directors), advisors, consultants of the Company or any of its subsidiaries.

The Scheme will remain valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted, after which period no further Share Options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and Share Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue. The principal terms of which were summarized in the paragraph headed “Share Option Scheme” in Appendix IV to the Company’s prospectus dated 18 September 2015. No share options have been granted under the Scheme since its adoption.

AUDIT COMMITTEE

The existing audit committee of the Company (the “**Audit Committee**”) consists of three independent non-executive Directors of the Company, chaired by Mr. Wong Ching Wan and the other two members are Mr. Chan Shiu Man and Mr. Fung Chan Man Alex.

The unaudited first quarterly financial results of the Group for the three months ended 30 June 2018 have been reviewed by the Audit Committee.

By Order of the Board
On Real International Holdings Limited
Tam Wing Ki
Chairman and Executive Director

Hong Kong, 14 August 2018

As at the date of this announcement, the executive Directors are, Mr. Tam Wing Ki, Mr. Fu Yan Ming and Mr. Kwok Ming Fai, and the independent non-executive Directors are Mr. Chan Shiu Man, Mr. Fung Chan Man Alex and Mr. Wong Ching Wan.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.on-real.com.