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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)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of On Real International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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.*

FINANCIAL HIGHLIGHTS

- Revenue of the Company for the six months ended 30 September 2018 amounted to approximately HK\$166.9 million, representing an increase of approximately 10.7% as compared with that of approximately HK\$150.7 million for the six months ended 30 September 2017.
- Profit attributable to the owner of the Company for the six months ended 30 September 2018 amounted to approximately HK\$5.3 million as compared to a loss of approximately HK\$7.5 million for the six months ended 30 September 2017.
- Basic and diluted earnings per share for the six months ended 30 September 2018 amounted to approximately HK cents 0.14 (for the six months ended 30 September 2017: loss per share HK cents 0.17 (restated)).
- The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2018.

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

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three and six months ended 30 September 2018

		Three months ended 30 September		Six months ended 30 September	
		2018	2017	2018	2017
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited) (restated)	(Unaudited)	(Unaudited) (restated)
Revenue	6	92,255	73,368	166,860	150,710
Cost of sales	9	(82,593)	(66,585)	(149,555)	(138,308)
Gross profit		9,662	6,783	17,305	12,402
Other income	7	849	1,465	2,984	2,177
Other gains and (losses)	8	401	(180)	45	(203)
Selling and distribution expenses	9	(1,331)	(900)	(2,042)	(1,847)
Administrative expenses	9	(5,580)	(9,055)	(11,119)	(18,513)
Finance costs	10	(417)	(248)	(654)	(418)
Profit (Loss) before income tax		3,584	(2,135)	6,519	(6,402)
Income tax (expense) credit	11	(621)	—	(1,122)	(130)
Profit (Loss) for the period		2,963	(2,135)	5,397	(6,532)
Profit (Loss) for the period attributable to:					
Owners of the Company		2,944	(2,135)	5,326	(6,532)
Non-controlling interest		19	—	71	—
		2,963	(2,135)	5,397	(6,532)
Other comprehensive income (expenses)					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of foreign operations		(1,959)	1,825	(1,184)	2,595

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three and six months ended 30 September 2018

	Three months ended 30 September		Six months ended 30 September		
	2018	2017	2018	2017	
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Unaudited)	(Unaudited) (restated)	(Unaudited)	(Unaudited) (restated)	
Total comprehensive income for the period	1,004	(310)	4,213	(3,937)	
Total comprehensive income for the period attributable to:					
Owners of the Company	985	(310)	4,142	(3,937)	
Non-controlling interests	19	—	71	—	
	1,004	(310)	4,213	(3,937)	
Earnings (Loss) per share attributable to owners of the Company for the period – Basic and diluted (expressed in HK cents per share)	12	0.08	(0.06)	0.14	(0.17)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

		30 September 2018	31 March 2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	14	5,644	6,387
Intangible assets	14	3,581	5,020
Financial asset at fair value through profit or loss		17,132	14,132
Prepayments	15	636	954
Deferred tax assets		1,194	1,194
Total non-current assets		28,187	27,687
Current assets			
Inventories	16	48,609	46,405
Trade and other receivables	15	122,408	94,394
Amount due from a related company	20	—	—
Tax recoverable		6,120	1,180
Pledged bank deposits		2,247	2,381
Bank balances and cash		20,827	29,734
		200,211	174,094
Current liabilities			
Trade and other payables	19	94,017	79,946
Amount due to a related company	20	1,476	387
Borrowings	18	51,625	36,551
Bond payables	23	—	839
Income tax payables		3,090	2,147
		150,208	119,870

		30 September 2018	31 March 2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
Net current assets		<u>50,003</u>	<u>54,224</u>
Total assets less current liabilities		<u>78,190</u>	<u>81,911</u>
Non-current liabilities			
Bond payables		<u>—</u>	<u>7,934</u>
Net assets		<u>78,190</u>	<u>73,977</u>
Capital and reserves			
Share capital	17	4,800	4,800
Reserves		<u>73,324</u>	<u>69,182</u>
Equity attributable to owners of the Company		<u>78,124</u>	<u>73,982</u>
Non-controlling interests		<u>66</u>	<u>(5)</u>
Total Equity		<u><u>78,190</u></u>	<u><u>73,977</u></u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to owners of the Company							Non-Controlling interests	Total Equity
	Share capital	Share premium	Capital reserve	PRC			Total		
				Statutory reserve	Exchange reserve	Accumulated loss			
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	—	—	—	—	—	5,326	5,326	71	5,397
Other comprehensive Income									
Exchange difference arising on translation of foreign operations	—	—	—	—	(1,184)	—	(1,184)	—	(1,184)
Total comprehensive income/(loss)	—	—	—	—	(1,184)	5,326	4,142	71	4,213
Balance at 30 September 2018 (Unaudited)	<u>4,800</u>	<u>75,468</u>	<u>(5,826)</u>	<u>5,190</u>	<u>1,567</u>	<u>(3,075)</u>	<u>78,124</u>	<u>66</u>	<u>78,190</u>

	Attributable to owners of the Company							Total Equity
	Share capital	Share premium	Capital reserve	PRC			Total	
				Statutory reserve	Exchange reserve	Accumulated loss		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2017 (Audited)	4,800	75,468	(5,826)	4,472	1,303	(8,573)	71,644	
(Loss) for the period	—	—	—	—	—	(6,532)	(6,532)	
Other comprehensive Income								
Exchange difference arising on translation of foreign operations	—	—	—	—	2,595	—	2,595	
Total comprehensive income/(loss)	—	—	—	—	2,595	(6,532)	(3,937)	
Balance at 30 September 2017 (Unaudited)	<u>4,800</u>	<u>75,468</u>	<u>(5,826)</u>	<u>4,472</u>	<u>3,898</u>	<u>(15,105)</u>	<u>67,707</u>	

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)
Cash flows from operating activities		
Cash generated from (used in) operations	(12,854)	5,303
Interest paid	(654)	(418)
Income tax paid	(1,122)	(131)
	<u>(14,630)</u>	<u>4,754</u>
Net cash generated from (used in) operating activities	<u>(14,630)</u>	<u>4,754</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(1,261)	(3,142)
Proceeds from disposals of property, plant and equipment	—	246
Decrease in restricted cash	134	—
Interest received	35	45
	<u>(1,092)</u>	<u>(2,851)</u>
Net cash used in investing activities	<u>(1,092)</u>	<u>(2,851)</u>
Cash flows from financing activities		
(Repayment of) proceeds from borrowings	15,074	(6,548)
Proceeds from bond payables	12,301	16,896
Early repayment of bond payables	(20,560)	(15,936)
	<u>6,815</u>	<u>(5,588)</u>
Net cash (used in) generated from financing activities	<u>6,815</u>	<u>(5,588)</u>
Net decrease in cash and cash equivalents	(8,907)	(3,685)
Cash and cash equivalents at the beginning of the period	29,734	36,584
	<u>20,827</u>	<u>32,899</u>
Cash and cash equivalents at end of the period	<u>20,827</u>	<u>32,899</u>

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 CORPORATION INFORMATION, REORGANISATION AND BASIS OF PRESENTATION

(a) General information

On Real International Holdings Limited (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, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business is Office D, 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, smart TV 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 interim financial information is presented in thousands of Hong Kong dollars (“**HK\$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 consolidated annual financial statements.

2 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2018 (“**Interim Period**”) 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**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM (the “**GEM Listing Rules**”).

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Interim Period are consistent with those used in the audited financial statements of the Group for the year ended 31 March 2018.

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Interim Period. There have been no significant changes to the accounting policies applied in these financial statements for the Interim Period presented as a result of these developments.

The unaudited condensed consolidated financial statements for the Interim Period have not been audited by the Company's independent auditor but have been reviewed by the Company's audit committee.

The preparation of the unaudited condensed consolidated financial statements of the Group for the Interim Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require the management to exercise their judgements in the process of applying the Group's accounting policies.

ADOPTION OF NEW AND AMENDED HKFRSs

In the current period, the Group has applied for the first time the new and amended HKFRSs issued by the HKICPA, which are relevant to the Group's operations and effective for the Group's unaudited condensed consolidated financial statements for the period beginning on 1 April 2018.

The adoption of these new and amended HKFRSs, except for HKFRS 9 and HKFRS 15, the details of which are explained below, had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented.

The Group has not early adopted the new or revised standards and interpretations that have been issued but are not yet effective. The directors anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

HKFRS 9 Financial instruments

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has performed a high-level assessment of the impact upon the adoption of HKFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The impacts arising from the adoption of HKFRS 9 are summarised as follows:

(a) Classification and measurement

The adoption of HKFRS 9 does not have a significant impact on the classification and measurement of the Group financial assets. It continues measuring all financial assets as loans and receivables. The carrying amounts for all financial assets and financial liabilities at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables.

The Group established expected credit losses model based on historical settlement records, past experience and available forward-looking information. The Group has concluded that the impact of expected credit losses on these financial assets is insignificant as at 1 April 2018.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 superseded the revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

The adoption of HKFRS 15 does not have a significant impact on how the Group recognises revenue and this change in accounting policy had no material impact on how the Group recognises its revenue.

Correction of prior year errors

During the six months ended 30 September 2017, the issue of bond has been restated in respect to the correction of error in the gain on early repayment of bond payables recognised. The other income of the Company for the six months ended 30 September 2017 was understated by approximately HK\$960,000.

3 PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for financial asset at fair value through profit or loss which is measured at fair values.

4 ESTIMATES

The preparation of unaudited condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk. The unaudited interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the consolidated annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 March 2018.

There have been no changes in the risk management policies since year end.

5.2 Liquidity risk

Compared to year end, there have been no material changes to the policies and practices for the Group's liquidity and funding risks management as described in the annual financial statements for the year ended 31 March 2018.

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (level 3)

The following table presents the Group's financial asset that is measured at fair value:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Unaudited				
At 30 September 2018				
Asset				
— Financial asset at fair value through profit or loss	<u>—</u>	<u>—</u>	<u>17,132</u>	<u>—</u>
Audited				
At 31 March 2018				
Asset				
— Financial asset at fair value through profit or loss	<u>—</u>	<u>—</u>	<u>14,132</u>	<u>—</u>

5.4 Fair value measurements using significant unobservable inputs (Level 3)

The following table presents the changes in level 3 instruments for the six months ended 30 September 2018 and 2017:

	Financial asset at fair value through profit or loss	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Opening balance at 1 April	14,132	13,622
Total gains recognized in profit or loss	—	510
Acquisition	3,000	—
Closing balance at 30 September	<u>17,132</u>	<u>14,132</u>

There were no transfers between levels 2 and 3 during the respective periods.

The fair values of trade and other receivables, pledged bank deposits, bank balances and cash, trade and payables, and borrowings as at 30 September 2018 approximate to their carrying amounts.

6 SEGMENT INFORMATION

The Group is principally engaged in the designing, trading and manufacturing of two-way radios, baby monitors, smart TV and other communication devices 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, smart TV, other communication devices and servicing business based on gross profit arising in the course of the ordinary activities which are recurring in nature.

Capital expenditure comprises additions to property, plant and equipment.

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

	Two-way radios HK\$'000 (Unaudited)	Baby monitors HK\$'000 (Unaudited)	Service business HK\$'000 (Unaudited)	Smart TV HK\$'000 (Unaudited)	Other products (Note i) HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
For the six months ended						
30 September 2018						
Total segment revenue (from external customers)	<u>94,743</u>	<u>6,732</u>	<u>1,243</u>	<u>39,937</u>	<u>24,205</u>	<u>166,860</u>
Segment result for the period	<u>12,479</u>	<u>174</u>	<u>1,000</u>	<u>710</u>	<u>2,942</u>	<u>17,305</u>
Other segment items:						
Amortisation of intangible assets	405	579	—	—	—	984
Depreciation of property, plant and equipment	<u>813</u>	<u>13</u>	<u>405</u>	<u>—</u>	<u>1</u>	<u>1,232</u>
For the six months ended						
30 September 2017						
Total segment revenue (from external customers)	<u>110,674</u>	<u>13,296</u>	<u>6,558</u>	<u>—</u>	<u>20,182</u>	<u>150,710</u>
Segment result for the period	<u>10,161</u>	<u>989</u>	<u>298</u>	<u>—</u>	<u>954</u>	<u>12,402</u>
Other segment items:						
Amortisation of intangible assets	338	1,016	—	—	—	1,354
Depreciation of property, plant and equipment	<u>1,391</u>	<u>38</u>	<u>62</u>	<u>—</u>	<u>328</u>	<u>1,819</u>

Note i: Other products include DECT (Digital Enhanced Cordless Telecommunications) phones, transistors, integrated circuits, plastic casings, rechargeable battery chargers, ultrasonic cleansers, inductive emergency flashlights, smart TV and accessories such as headsets, belt clips, chargers and power adaptors, etc.

Total revenue recognised during the respective period are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Sales of goods	91,413	73,146	165,617	144,152
Sales of service	842	222	1,243	6,558
	<u>92,255</u>	<u>73,368</u>	<u>166,860</u>	<u>150,710</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.

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

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)
Segment results	<u>9,662</u>	<u>6,783</u>	<u>17,305</u>	<u>12,402</u>
Other income	849	1,465	2,984	2,177
Other gains and (losses)	401	(180)	45	(203)
Selling, distribution and administrative expenses	(6,911)	(9,955)	(13,161)	(20,360)
Finance costs	<u>(417)</u>	<u>(248)</u>	<u>(654)</u>	<u>(418)</u>
Profit (Loss) before income tax	<u>3,584</u>	<u>(2,135)</u>	<u>6,519</u>	<u>(6,402)</u>

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

	Three months ended		Six months ended	
	30 September		30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The United States of America (the "US")	49,382	24,728	83,710	60,865
Europe (<i>Note 1</i>)	5,686	8,989	9,187	14,873
The Netherlands	4,091	4,273	7,209	14,333
Asia (<i>Note 2</i>)	8,485	11,840	28,378	22,373
The United Kingdom ("UK")	2,599	3,956	3,702	7,145
Germany	21,514	11,290	34,067	19,221
Others (<i>Note 3</i>)	498	8,292	607	11,900
	<u>92,255</u>	<u>73,368</u>	<u>166,860</u>	<u>150,710</u>

Note 1: Europe includes but is not limited to France, Italy and Belgium but excludes UK, 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.

Revenue is allocated based on the shipping destination.

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

7 OTHER INCOME

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)
Bank interest income	20	16	35	32
Interest income from financial asset at fair value through profit or loss	—	—	93	90
Interest income charged to customers	—	—	—	22
Staff quarter rental income	9	17	22	39
Gain on disposal of non-current assets	—	—	—	246
Gain on early repayment of bond payables	—	960	514	960
Sale of scrap	44	108	189	255
Machinery rental income	117	180	394	306
Others	659	184	1,737	227
	<u>849</u>	<u>1,465</u>	<u>2,984</u>	<u>2,177</u>

8 OTHER (LOSSES) AND GAINS

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Exchange (losses)/gains, net	401	(180)	104	(146)
Fair value losses on financial asset at fair value through profit or loss	—	—	(59)	(57)
	<u>401</u>	<u>(180)</u>	<u>45</u>	<u>(203)</u>

9 PROFIT FOR THE PERIOD ATTRIBUTABLE OF THE OWNERS OF THE COMPANY

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Cost of inventories recognised as expenses	66,783	39,729	114,898	87,947
Employee benefit expenses	6,566	12,258	14,186	25,363
Subcontracting fees	8,873	12,528	18,522	25,322
Amortisation of intangible assets (<i>Note 14</i>)	395	693	984	1,354
Depreciation of property, plant and equipment (<i>Note 14</i>)	597	875	1,232	1,819
Operating leases				
— Office premises and staff quarters	242	415	636	853
— Factories	475	494	1,014	954
— Plant and machinery	159	282	318	441

10 FINANCE COSTS

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on:				
— bank and other borrowings	417	248	654	411
— amount due to a related company	—	—	—	7
	417	248	654	418

11 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit during the six months ended 30 September 2018. The PRC enterprise income tax is provided at the rate of 25% during the six months ended 30 September 2018.

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

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current income tax	<u>621</u>	<u>—</u>	<u>1,122</u>	<u>130</u>

12 EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY FOR THE PERIOD – BASIC AND DILUTED

(a) Basic

Basic earnings (loss) per share is calculated by dividing the profit (loss) for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the respective periods.

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited) (restated)
Profit (Loss) attributable to owners of the Company (HK\$'000)	2,944	(2,135)	5,326	(6,532)
Weighted number of ordinary shares in issue ('000)	3,840,000	3,840,000	3,840,000	3,840,000
Basic earnings (loss) per share (HK cents per share)	<u>0.08</u>	<u>(0.06)</u>	<u>0.14</u>	<u>(0.17)</u>

(b) Diluted

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

13 DIVIDENDS

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

14 CAPITAL EXPENDITURE

	Property, plant and equipment HK\$'000	Intangible assets – Product development costs HK\$'000
Unaudited		
Six months ended 30 September 2018		
Opening net book amount as at 1 April 2018	6,387	5,020
Additions	1,261	—
Depreciation/amortisation	(1,232)	(984)
Disposal	(88)	—
Exchange differences	(684)	(455)
	<u>5,644</u>	<u>3,581</u>
Closing net book amount as at 30 September 2018	<u><u>5,644</u></u>	<u><u>3,581</u></u>
Audited		
Year ended 31 March 2018		
Opening net book amount as at 1 April 2017	7,098	3,325
Additions	4,154	4,466
Disposal	(1,613)	—
Depreciation/amortisation	(3,534)	(2,774)
Exchange differences	282	3
	<u>282</u>	<u>3</u>
Closing net book amount as at 31 March 2018	<u><u>6,387</u></u>	<u><u>5,020</u></u>

15 TRADE AND OTHER RECEIVABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Trade receivable (<i>Note a</i>)	81,779	58,504
Prepayments	13,768	8,597
Value-added tax receivables	25,071	26,505
Deposits (<i>Note b</i>)	1,476	1,339
Other receivables	950	403
	<hr/>	<hr/>
Total trade and other receivables	123,044	95,348
Less: non-current portion	(636)	(954)
	<hr/>	<hr/>
Current portion	122,408	94,394
	<hr/> <hr/>	<hr/> <hr/>

The Group does not hold any collateral over these balances.

Note:

- (a) The carrying amounts of trade receivable approximate their fair values
- (b) Included in the balance of deposits, are of approximately HK\$636,000 (31 March 2018: HK\$954,000) rental deposits as at 30 September 2018 and are shown as non-current assets.

- (a) The Group normally grants credit terms to its customers up to 90 days. The ageing analysis of the trade receivable based on invoice date are as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Within 30 days	75,361	27,407
31 to 60 days	459	12,180
61 to 90 days	—	13,254
91 to 180 days	3,585	3,407
Over 180 days	<u>2,374</u>	<u>2,256</u>
Total	<u>81,779</u>	<u>58,504</u>

- (b) The Group normally grants credit terms to its customers up to 90 days. The ageing analysis of the trade receivable based on due date are as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Currents	<u>71,288</u>	<u>41,990</u>
Within 30 days	4,194	5,616
31 to 60 days	325	8,076
61 to 90 days	294	945
91 to 180 days	3,131	710
Over 180 days	<u>2,547</u>	<u>1,167</u>
Amounts past due but not impaired	<u>10,491</u>	<u>16,514</u>
Total	<u>81,779</u>	<u>58,504</u>

16 INVENTORIES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Raw materials	25,863	27,925
Work in progress	20,308	12,448
Finished goods	2,438	6,032
	<u>48,609</u>	<u>46,405</u>

The cost of inventories recognised as expenses in “cost of sales” amounted to approximately HK\$114,898,000 and HK\$87,947,000 for the six months ended 30 September 2018 and 30 September 2017, respectively.

17 SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.00125 each	<u>6,240,000,000</u>	<u>7,800</u>
Issued and fully paid:		
Ordinary shares of HK\$0.00125 each at 31 March 2018 (audited), 1 April 2018 (unaudited) and 30 September 2018 (unaudited)	<u>3,840,000,000</u>	<u>4,800</u>

18 BORROWINGS

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Bank borrowings due for repayment within 1 year	40,431	36,551
Short-term loan due for repayment within 1 year	11,194	—
	<hr/>	<hr/>
Amount shown under current liabilities	<u>51,625</u>	<u>36,551</u>

All borrowings, including the term loans repayable on demand, are carried at amortised cost.

Short-term loan is unsecured, interest-free and repayable on demand.

As at 30 September 2018, the Group's banking facilities are secured by:

- (i) pledge of key-man insurance with an aggregate amount of approximately HK\$14,132,000;
- (ii) pledged bank deposits with an aggregate amount of approximately HK\$2,247,000;
- (iii) a corporate guarantee from the Company with an aggregate amount of approximately HK\$65,000,000; and
- (iv) certain of the Group's trade receivables with an aggregate amount of approximately HK\$27,082,000.

As at 31 March 2018, the Group's banking facilities are secured by:

- (i) pledge of key-man insurance with an aggregate amount of approximately HK\$14,132,000;
- (ii) pledged bank deposits with an aggregate amount of approximately HK\$2,381,000;
- (iii) a corporate guarantee from the Company with an aggregate amount of approximately HK\$65,000,000; and
- (iv) certain of the Group's trade receivables with an aggregate amount of approximately HK\$27,556,000.

The carrying amounts of the borrowings approximate their fair values. The weighted average interest rate is 0.45% to 3.4% (31 March 2018: 0.45% to 3.4%) as at 30 September 2018.

19 TRADE AND OTHER PAYABLES

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Trade payables	73,769	58,918
Other payables and accruals		
Accrued expenses	13,417	12,783
Other payables	4,054	3,649
Receipt in advance (<i>Note</i>)	2,777	4,596
	<u>20,248</u>	<u>21,028</u>
Trade and other payables	<u>94,017</u>	<u>79,946</u>

Note: Receipt in advance represented advance payments of related sales of goods from customers pursuant to the respective sales contracts.

The ageing analysis of the trade payables based on invoice date is as follows:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Within 30 days	52,323	14,157
31 to 60 days	3,957	16,750
61 to 90 days	7,461	17,923
More than 90 days	10,028	10,088
	<u>73,769</u>	<u>58,918</u>

The credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

20 AMOUNT DUE FROM (TO) A RELATED COMPANY

(a) Amount due from a related company

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Xinxing On Time Electronics Limited	<u>—</u>	<u>—</u>

The balances are unsecured, interest-free and repayable on demand.

(b) Amount due to a related company

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Xinxing On Time Electronics Limited	<u>1,476</u>	<u>387</u>

The balances are unsecured, interest-free and repayable on demand.

21 CAPITAL COMMITMENTS

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
Contracted but not provided for		
— Property, plant and equipment	1,070	1,223
— Intangible assets	<u>224</u>	<u>—</u>

The Group has no other material commitments as at 30 September 2018 (30 September 2017: HK\$2,434,000).

22 RELATED-PARTY TRANSACTIONS

For the purposes of these unaudited condensed consolidated interim 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 and six months ended 30 September 2017 and 30 September 2016.

(a) Transactions with related parties

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Rental expenses charged by a related company	442	426	880	819
Interest expenses paid	—	—	—	7

Note: Rental expenses charged and interest expenses paid was paid to Xinxing On Time Electronics Limited (“Xinxing On Time”). Mr. Tam, the director and chairman 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 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Wages, salaries and allowances	603	1,115	1,207	2,649
Retirement benefit costs	18	17	36	35
	<u>621</u>	<u>1,132</u>	<u>1,243</u>	<u>2,684</u>

23 BOND PAYABLES

The bonds bear interest at a rate of 14% per annum for the first eight years and are paid annually after 1 year of issuance date. From the ninth year, the interest rate is changed to 0.001% per annum. The effective interest rate ranged from 6.57% to 7.50%. The bonds have no fixed expiry date and may be redeemed by the Group after eight years from issuance date at HK\$1. The interest payments are deferred at the Group's discretion, if the Group does not (a) pay dividend to the shareholders of the Company within 6 months prior to the scheduled interest payment date or (b) cancel or reduce their share capitals within 6 months period prior to the scheduled interest payment date. As a result of the holder's protection clause, the Group is required to repay the remaining interest in the first eight years if the majority of assets of any of the Company or major subsidiaries were held in custody for more than 10 days or there is a similar event. Therefore, the bonds are treated as liabilities.

During the period, the movement of the bonds is as follow:

	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
At the beginning of the period	<u>8,773</u>	<u>—</u>
Principal	15,000	137,900
Issuance fee	(2,699)	(24,246)
Net amount	12,301	113,654
Early repayment	(20,560)	(101,760)
Gain on early repayment	(514)	(3,121)
Carrying amount	<u><u>—</u></u>	<u><u>8,773</u></u>

24 EVENT AFTER REPORT PERIOD

On 2 October 2018, the Company granted a total of 115,200,000 share options to subscribe for ordinary shares of per value HK\$0.00125 each for the Company, representing approximately 3% of the issued shares of the Company under the Company's share option scheme. For the detail, please refer to the Company's announcement dated 2 October 2018.

25 APPROVAL OF THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements were approved and authorised for issue by the Board on 14 November 2018.

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 six months ended 30 September 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 revenue principally from designing, manufacturing and selling two-way radios and baby monitor products on original design manufacturing basis and trading of smart TV.

The Group’s revenue increased from approximately HK\$150.7 million for the six months ended 30 September 2017 to approximately HK\$166.9 million for the six months ended 30 September 2018, representing an increase of approximately 10.7%. Such increase was mainly due to start trading of smart TV during the six months ended 30 September 2018.

The Group’s revenue of two-way radios decreased by approximately 14.4% from approximately HK\$110.7 million for the six months ended 30 September 2017 to approximately HK\$94.7 million for the six months ended 30 September 2018 mainly due to the decrease in demand from customers.

The Group’s revenue of baby monitor decreased by approximately 49.6% from approximately HK\$13.3 million for the six months ended 30 September 2017 to approximately HK\$6.7 million for the six months ended 30 September 2018 mainly due to the decrease in demand of our audio baby monitor products.

The Group’s revenue of other products increased by approximately 19.8% from approximately HK\$20.2 million for the six months ended 30 September 2017 to approximately HK\$24.2 million for the six months ended 30 September 2018 mainly due to the increase in demand in materials and parts to customers in the People’s Republic of China (the “**PRC**”).

The Group’s revenue of trading of smart TV approximately HK\$39.9 million for the six months ended 30 September 2018 was newly launched during the period ended 30 September 2018.

The Group’s revenue of service business decreased by approximately 81.0% from approximately HK\$6.6 million for the six months ended 30 September 2017 to approximately HK\$1.2 million for the six months ended 30 September 2018 mainly due to decrease in the provision of electronic manufacturing servicing business due to the drop in demand.

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

The following table sets forth the breakdown of the revenue of the Group by product categories for each of the three and six months ended 30 September 2017 and 2018:

	Three months ended 30 September					
	2018		2017		Increase (Decrease)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)			
Two-way radio	46,820	50.8	58,444	79.7	(11,624)	(19.9)
Baby monitors	940	1.0	5,774	7.9	(4,834)	(83.7)
Service business	842	0.9	222	0.3	620	279.3
Smart TV	31,871	34.5	—	0.0	31,871	100.0
Other products	11,782	12.8	8,928	12.1	2,854	32.0
Total	92,255	100.0	73,368	100.0	18,887	25.7

	Six months ended 30 September					
	2018		2017		Increase (Decrease)	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)			
Two-way radio	94,743	56.8	110,674	73.4	(15,931)	(14.4)
Baby monitors	6,732	4.1	13,296	8.8	(6,564)	(49.4)
Service business	1,243	0.7	6,558	4.4	(5,315)	(81.0)
Smart TV	39,937	23.9	—	0.0	39,937	100.0
Other products	24,205	14.5	20,182	13.4	4,023	19.9
Total	166,860	100.0	150,710	100.0	16,150	10.7

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 smart TV in the first quarter of 2018/19.

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.

On 27 September 2018, the Company, as subscriber, entered into the memorandum of understanding (the “**MOU**”) with Primus Power Corporation, a company incorporated and existing under the laws of the State of Delaware, the United States of America (“**Target**”), pursuant to which the parties to the MOU will negotiate for the proposed subscription by the Company of certain securities in the Target.

Subject to further negotiation and the entering into of a legally-binding formal agreement, and the fulfilment or wavier of conditions precedent which may be set out in the formal agreement, the Company intends to subscribe for certain number of securities to be issued by the Target at a consideration to be determined (the “**Proposed Subscription**”).

The final terms of the Proposed Subscription, including the consideration and the number of securities to be subscribed will be subject to further negotiations and the formal agreement to be entered into between the parties to the MOU.

On 8 October 2018, the Company entered into a non-legally binding term sheet (the “**Term Sheet**”) with the Target, pursuant to which the parties to the Term Sheet will further negotiate for the Proposed Subscription by the Company of certain number of Series F Convertible Preferred Stock to be issued by the Target at a share price to be determined by the parties to upon signing of a formal agreement. The indicative total subscription consideration is US\$10 million. The subscription price will be payable by the Company to the Target at the applicable closing date of the upon the satisfaction or waiver of closing conditions as may be stated in the formal agreement.

Details of the Proposed Subscription were set out in the Company’s announcements dated 27 September 2018 and 8 October 2018.

On 10 October 2018, the Company entered into the technology collaboration agreement (the “**Agreement**”) with Seiki Corporation (“**Seiki**”), which is a company incorporated in the United States of America, pursuant to which the Company has agreed to provide engineering design and technical support service to Seiki in relation to the Project (defined as below).

The Company will provide engineering design and technical support service to Seiki to facilitate the implementation of the project(s) (the “**Project**”) under a collaboration agreement entered into between Google LLC (“**Google**”) and Kelly Digital Company Limited (“**KDI**”), the holding company of Seiki. The Project is related to the products and services developed by KDI under Google’s technology including but not limited to smart TV, smart speakers, smart soundbar, smart idisplay and smart monitors.

Details of the Agreement were set out in the Company’s announcement dated 10 October 2018.

Below are the progress of the 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 addition 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 smart TV in the first quarter of 2018/19.

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 smart TV 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 looks at and considers potential investment opportunities from time to time and looking for business opportunity of the Company. The Group will also 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, product costs, direct labour costs and subcontracting fees. The Group's cost of sales increased by approximately 8.2% from HK\$138.3 million for the six months ended 30 September 2017 to HK\$149.6 million for the six months ended 30 September 2018, which was mainly due to start trading of smart TV in the first quarter of 2018/19. The gross margin increased from approximately 8.2% for the six months ended 30 September 2017 to approximately 10.4% for the six months ended 30 September 2018, which was mainly due to the result of cost restructuring plan of the Group.

Selling and Distribution Expenses

The selling and distribution expenses increased from approximately HK\$1.8 million for the six months ended 30 September 2017 to approximately HK\$2.0 million for the six months ended 30 September 2018, which was mainly due to marketing and promotion expenses for the marketing of America.

Administrative Expenses

The administrative expenses slightly decreased from approximately HK\$18.5 million for the six months ended 30 September 2017 to approximately HK\$11.1 million for the six months ended 30 September 2018, which was mainly due to the costs optimization.

Profit or Loss attributable to the owners of the Company

Profit attributable to the owners of the Company for the six months ended 30 September 2018 amounted approximately HK\$5.3 million compared with loss of HK\$6.5 million in the same period last year. The main reason of the profit was the increase in gross profit HK\$4.9 million and decrease in administrative expenses for the reason mentioned above.

Liquidity, Financial Resources and Capital Structure

Historically, the Group has funded the liquidity and capital requirements primarily through operating cash flows and bank borrowings. As at 30 September 2018, we had various short term loan, bank borrowings and overdrafts of approximately HK\$51.6 million, including factoring loans for trade receivables (as at 31 March 2018: approximately HK\$36.5 million), representing an increase of approximately HK\$15.1 million as compared to that as at 31 March 2018.

Net current assets decreased from approximately HK\$54.2 million as at 31 March 2018 to approximately HK\$50.0 million for the six months ended 30 September 2018, which was mainly due to the increase in borrowings and trade payable during the period ended 30 September 2018.

The Company requires cash primarily for working capital needs. As at 30 September 2018, the Company had approximately HK\$20.8 million in cash and bank balances (as at 31 March 2018: approximately HK\$29.7 million), representing a decrease of approximately HK\$8.9 million as compared to that as at 31 March 2018.

Capital Commitments

The Company had capital commitments on acquisition of intangible assets and property, plant and equipment of approximately HK\$1.3 million (as at 31 March 2018: HK\$1.2 million).

Gearing Ratio

As at 30 September 2018, the gearing ratio of the Group was approximately 66.0% (as at 31 March 2018: approximately 50.5%). The gearing ratio is calculated based on the borrowings divided by the total equity at the end of the period. The increase of the gearing ratio was mainly attributable to the increase in the amount of borrowings for short term loan to support the settlement to suppliers.

Pledged of Assets

As at 30 September 2018, certain fixed deposits of approximately HK\$2.2 million (as at 31 March 2018: approximately HK\$2.4 million) and key-man insurance of approximately HK\$14.1 million (as at 31 March 2018: approximately HK\$14.1 million) were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As at 30 September 2018, the Company had no significant contingent liabilities (as at 31 March 2018: Nil).

Financial Risk Management

Risk management is carried out by finance department under policies approved by the Board. Finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management and specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Company did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposure as of 30 September 2018.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

There were neither significant investments held as at 30 September 2018 nor material acquisitions and disposals of subsidiaries during the six months ended 30 September 2018. Save for the business plan and the capital commitments as disclosed in this announcement, there is no plan for material investment or capital assets as at 30 September 2018.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2018.

Employees and Remuneration Policies

As of 30 September 2018, the Group had a total of 310 employees. The Group remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. We recognise the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries and allowances.

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 September 2018, the unused proceeds of approximately HK\$7.5 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 six months ended 30 September 2018, the net proceeds had been utilised as follows:

	Actual net proceeds HK\$ Million	Amount utilised up to 30 September 2018 HK\$ Million	Balance as at 30 September 2018 HK\$ Million
Strengthen our product portfolio	21.7	16.7	5.0
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
Total	30.9	23.4	7.5

OTHER INFORMATION

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

At 30 September 2018, Mr. Tam Wing Ki (“**Mr. Tam**”), the Executive Director and chief executive officer 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%

Note: All interests stated above represent long positions.

Save as disclosed herein, as at 30 September 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 Rules Governing the Listing of Securities on the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, at 30 September 2018, the following shareholders had interests in the shares or underlying shares of the Company and its associated corporations within the meaning of Part XV of the SFO 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 ”) <i>(Note 1)</i>	Beneficial owner	1,125,896,000	29.32%
SW Venture Asia Limited <i>(Note 1)</i>	Interest in a controlled corporation	1,125,896,000	29.32%
Mr. Yeung Shing Wai <i>(Note 1)</i>	Interest in a controlled corporation	1,125,896,000	29.32%
SMK Investment Company Limited (“ SMK ”) <i>(Note 2)</i>	Beneficial owner	898,176,000	23.39%
Mr. Tam <i>(Note 2)</i>	Interest in a controlled corporation	898,176,000	23.39%
Ms. Tang Yin Ping <i>(Note 3)</i>	Interest of his child under 18 or spouse/ interest of a substantial shareholder’s child under 18 or spouse	898,176,000	23.39%

Notes:

- Mr. Yeung Shing Wai is the sole beneficial shareholder of SW Venture Asia Limited, which is the sole beneficial shareholder of Solution Smart. Therefore, Mr. Yeung Shing Wai and SW Venture Asia Limited are deemed to be interested in 1,125,896,000 shares of the Company held by Solution Smart under the SFO.
- Mr. Tam, the Director and chief executive officer of the Company, is the sole beneficial shareholder of SMK. Therefore, Mr. Tam is deemed to be interested in 898,176,000 shares of the Company held by SMK under the SFO.
- Ms. Tang Yin Ping is the spouse of Mr. Tam. Therefore, Ms. Tang Yin Ping is deemed to be interested in 898,176,000 shares of the Company held by Mr. Tam under the SFO.

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.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company or any of their respective associates, including spouses or children under eighteen years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the six months ended 30 September 2018.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the six months ended 30 September 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 six months ended 30 September 2018. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Group had adopted Rules 5.46 to Rules 5.67 Rules 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 and the code of conduct for Directors’ securities transactions during the six months ended 30 September 2018.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 September 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 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 Scheme is adopted, after which period no further share options will be granted but the provisions of the Scheme shall in all other respects remain in full force and effect and share options which are granted during the life of the 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 Prospectus. No share options have been granted under the Scheme during the six months ended 30 September 2018 (2017: nil).

AUDIT COMMITTEE

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

The unaudited interim financial results of the Group for the six months ended 30 September 2018 have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 September 2018 containing all the information required by the GEM Listing Rules will be despatched to the shareholders of the Company and will also be published on the website of the Company at www.on-real.com and the Stock Exchange’s website at www.hkexnews.hk.

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

Hong Kong, 14 November 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.