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Royal China International Holdings Limited

皇中國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1683)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Royal China International Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred hereafter as the “**Group**”) for the six months ended 30 June 2018, together with the comparative unaudited figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

| | <i>Notes</i> | Six months ended 30 June | |
|--|--------------|--|--|
| | | 2018 <i>HK\$'000</i> Unaudited | 2017 <i>HK\$'000</i> Unaudited |
| Revenue | 4 | 139,621 | 43,669 |
| Cost of sales | | <u>(118,196)</u> | <u>(30,299)</u> |
| Gross profit | | 21,425 | 13,370 |
| Other revenue and other gains | 5 | 727 | 492 |
| Other operating expenses | | (708) | (1,179) |
| Administrative expenses | | <u>(29,657)</u> | <u>(17,467)</u> |
| Loss before taxation | 6 | (8,213) | (4,784) |
| Taxation | 7 | <u>(1,210)</u> | <u>(798)</u> |
| Loss for the period | | <u>(9,423)</u> | <u>(5,582)</u> |
| Other comprehensive income for the period, net of income tax: | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translating of financial statements of foreign operations | | <u>3</u> | <u>–</u> |
| Other comprehensive income for the period | | <u>3</u> | <u>–</u> |
| Total comprehensive loss for the period | | <u>(9,420)</u> | <u>(5,582)</u> |
| (Loss)/profit for the period attributable to: | | | |
| Owners of the Company | | (10,169) | (5,582) |
| Non-controlling interests | | <u>746</u> | <u>–</u> |
| | | <u>(9,423)</u> | <u>(5,582)</u> |
| Total comprehensive (loss)/income for the period attributable to: | | | |
| Owners of the Company | | (10,167) | (5,582) |
| Non-controlling interests | | <u>747</u> | <u>–</u> |
| | | <u>(9,420)</u> | <u>(5,582)</u> |
| Loss per share: | | | |
| Basic and diluted (<i>HK cents</i>) | 9 | <u>(2.03)</u> | <u>(1.12)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

| | <i>Notes</i> | As at 30 June 2018 HK\$'000 Unaudited | As at 31 December 2017 HK\$'000 Audited |
|--|--------------|--|---|
| Non-current assets | | | |
| Property, plant and equipment | | 4,838 | 5,895 |
| Trading licence | 10 | <u>10,000</u> | <u>10,000</u> |
| | | <u>14,838</u> | <u>15,895</u> |
| Current assets | | | |
| Trade receivables | 11 | 66,958 | 28,602 |
| Amounts due from customers for contract work | | – | 5,007 |
| Contract assets | | 6,478 | – |
| Deposits, prepayments and other receivables | 12 | 16,141 | 16,344 |
| Income tax recoverable | | – | 1,215 |
| Cash and bank balances | | <u>71,278</u> | <u>134,524</u> |
| | | <u>160,855</u> | <u>185,692</u> |
| Current liabilities | | | |
| Trade payables | 13 | 21,387 | 22,774 |
| Amounts due to customers for contract work | | – | 374 |
| Accrued expenses and other payables | 14 | 16,119 | 26,197 |
| Income tax payable | | <u>265</u> | <u>–</u> |
| | | <u>37,771</u> | <u>49,345</u> |
| Net current assets | | <u>123,084</u> | <u>136,347</u> |
| Total assets less current liabilities | | <u>137,922</u> | <u>152,242</u> |
| Net assets | | <u>137,922</u> | <u>152,242</u> |
| Capital and reserves | | | |
| Share capital | | 5,000 | 5,000 |
| Reserves | | <u>132,922</u> | <u>142,151</u> |
| Equity attributable to owners of the Company | | 137,922 | 147,151 |
| Non-controlling interests | | <u>–</u> | <u>5,091</u> |
| Total equity | | <u>137,922</u> | <u>152,242</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

Royal China International Holdings Limited (the “Company”) was incorporated in Cayman Islands on 19 January 2015 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suites 2608-11, 26th Floor, Champion Tower, Three Garden Road, Central, Hong Kong.

The Company had its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 September 2015.

The Company is an investment company. The Company and its subsidiaries (collectively referred hereafter as the “Group”) are principally engaged in construction and ancillary services which include design, fitting-out, decoration, alteration and addition, construction and other related businesses, aviation and traveling services and financial services.

The condensed consolidated financial statements for the six months ended 30 June 2018 are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise stated.

2. BASIS OF PREPARATION

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

The condensed consolidated financial statements for the six months ended 30 June 2018 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the fifteen months ended 31 December 2017.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the fifteen months ended 31 December 2017, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA for the first time for the current period's condensed consolidated financial statements:

| | |
|----------------------------|--|
| Amendments to HKFRS 2 | <i>Classification and Measurement of Share-based Payment Transactions</i> |
| Amendments to HKFRS 4 | <i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i> |
| HKFRS 9 | <i>Financial Instruments</i> |
| HKFRS 15 | <i>Revenue from Contracts with Customers</i> |
| Amendments to the HKFRS 15 | <i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> |
| Amendments to HKAS 40 | <i>Transfers of Investment Property</i> |
| HK (IFRIC) – Int 22 | <i>Foreign Currency Transactions and Advance Consideration</i> |

The adoption of these revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these condensed consolidated financial statements.

4. REVENUE AND SEGMENT INFORMATION

The executive directors of the Company, being the chief operating decision-makers, review the Group's internal reporting in order to assess performance and allocate resources. Information reported to the chief operating decision marker, for the purpose of resources allocation and performance assessment, focuses on the types of goods or services delivered or provided.

During the prior periods, the chief operating decision-makers of the Group assessed the performance and allocated the resources of the Group as a whole, as all of the Group's activities focus on provision of construction and ancillary services. Therefore, management considered there was only one operating segment under the requirements of HKFRS 8 *Operating Segments*.

During the current period, the Group focuses on provision of construction and ancillary services, aviation and traveling services and financial services. Accordingly, the Group has three reportable segments under HKFRS 8 are as follows:

- (a) Construction and ancillary services – design, fitting-out, decoration, alteration and addition, construction and other related businesses.
- (b) Aviation and traveling services – aircraft management service, service of aircraft sales and aircraft leasing ancillary service.
- (c) Financial services – precious metal trading business and financial advisory service.

An analysis of revenue is as follows:

| | Six months ended 30 June | |
|-------------------------------------|--|--------------------------------------|
| | 2018 <i>HK\$'000</i> Unaudited | 2017 <i>HK\$'000</i> Unaudited |
| Construction and ancillary services | 105,846 | 43,669 |
| Aviation and travelling services | 33,775 | – |
| | 139,621 | 43,669 |
| Timing of revenue recognition: | | |
| Over time | 105,846 | 43,669 |
| At a point in time | 33,775 | – |
| | 139,621 | 43,669 |

Segment revenue and results

| | Construction and ancillary services <i>HK\$'000</i> Unaudited | Aviation and traveling services <i>HK\$'000</i> Unaudited | Financial Services <i>HK\$'000</i> Unaudited | Total <i>HK\$'000</i> Unaudited |
|-------------------------------|--|--|---|--|
| Six months ended 30 June 2018 | | | | |
| Segment revenue | <u>105,846</u> | <u>33,775</u> | – | <u>139,621</u> |
| Segment Result | 7,407 | 3,543 | (1,303) | 9,647 |
| Unallocated corporate income | | | | 231 |
| Unallocated corporate expense | | | | <u>(18,091)</u> |
| Loss before taxation | | | | (8,213) |
| Taxation | | | | <u>(1,210)</u> |
| Loss for the period | | | | <u><u>(9,423)</u></u> |

Segment results represent the profit earned by or loss from each segment without allocation of unallocated corporate income and unallocated corporate expenses. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the period.

For the six months ended 30 June 2017, information reported to the chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resource are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group's operations are located in Hong Kong, People's Republic of China (the "PRC").

The Group's geographical segments are classified according to the location of customers. There are two customer-based geographical segments. Segment revenue from external customers by the location of customer during the period is as follows:

Revenue from external customers

| | Six months ended 30 June | |
|-----------|--------------------------|-----------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | Unaudited | Unaudited |
| Hong Kong | 102,267 | 31,528 |
| PRC | 37,354 | 12,141 |
| | <u>139,621</u> | <u>43,669</u> |

The Group's geographical segments are also classified by the location of assets, information about its non-current assets by geographical location are detailed below:

Non-current assets

| | As at | As at |
|-----------|-----------------|-----------------|
| | 30 June | 31 December |
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | Unaudited | Audited |
| Hong Kong | 14,818 | 15,895 |
| PRC | 20 | — |
| | <u>14,838</u> | <u>15,895</u> |

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total revenue of the Group are as follows:

| | Six months ended 30 June | |
|-------------|--------------------------|-------------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | Unaudited | Unaudited |
| Customer A | 45,886 | 5,718 |
| Customer B | 35,668 | – |
| Customer C | 33,775 | – |
| Customer D | 16,953 | – |
| Customer E | – | 10,900 |
| Customer F | – | 9,717 |
| Customer G* | – | 7,225 |
| Customer H | – | 7,019 |
| | <u> </u> | <u> </u> |

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective period.

5. OTHER REVENUE AND OTHER GAINS

| | Six months ended 30 June | |
|---|--------------------------|-------------------|
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| | Unaudited | Unaudited |
| Other revenue | | |
| Bank interest income | 232 | 128 |
| Gain on disposal of property, plant and equipment | 150 | – |
| Other operating income | 272 | 361 |
| Sundry income | 21 | – |
| | <u> </u> | <u> </u> |
| | 675 | 489 |
| Other gains | | |
| Net exchange gain | 52 | 3 |
| | <u> </u> | <u> </u> |
| | 52 | 3 |
| Total | <u> </u> | <u> </u> |
| | 727 | 492 |

6. LOSS BEFORE TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|---------------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | Unaudited | Unaudited |
| Loss before taxation has been arrived at after charging/ (crediting): | | |
| Directors' emoluments | 4,837 | 3,009 |
| Salaries, wages and other benefits (excluding directors' emoluments) | 11,796 | 5,156 |
| Pension scheme contributions (excluding directors' emoluments) | 397 | 136 |
| | <u>12,193</u> | <u>5,292</u> |
| Depreciation of property, plant and equipment | 1,432 | 539 |
| Gain on disposal of property, plant and equipment | (150) | – |
| Minimum lease payments under operating leases in respect of office premises | 5,206 | 3,826 |
| Net exchange gain | (52) | (3) |
| | <u><u>12,193</u></u> | <u><u>5,292</u></u> |

7. TAXATION

| | Six months ended 30 June | |
|--------------------------|---------------------------------|-------------------|
| | 2018 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | Unaudited | Unaudited |
| Current tax: | | |
| Hong Kong | | |
| Provision for the period | 1,210 | 798 |
| Current tax expense | 1,210 | 798 |
| | <u><u>1,210</u></u> | <u><u>798</u></u> |

Hong Kong Profits Tax has been provided at the rate of 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits for the period.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Island ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI during the period.

The subsidiary of the Group established in the PRC is subject to PRC Enterprise Income Tax on its taxable income tax at an income tax rate of 25% (six months ended 30 June 2017: 25%).

No provision for the PRC Enterprise Income Tax has been made as the subsidiary operated in the PRC had no assessable profits during the period.

8. DIVIDENDS

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

9. LOSS PER SHARE

The calculation of the basic loss per share for the six months ended 30 June 2018 is based on the loss for the period attributable to owners of the Company of HK\$10,169,000 (six months ended 30 June 2017: loss of HK\$5,582,000) and the weighted average number of ordinary shares in issue of 500,000,000 (six months ended 30 June 2017: 500,000,000).

Diluted loss per share for the six months ended 30 June 2017 and 2018 were the same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the periods.

10. TRADING LICENCE

| | As at | |
|--|---|---|
| | 30 June 2018 <i>HK\$'000</i> Unaudited | 31 December 2017 <i>HK\$'000</i> Audited |
| Cost of membership for a seat at The Chinese Gold and Silver Exchange Society ("CGSE") (<i>note (a)</i>) | <u>10,000</u> | <u>10,000</u> |

Note:

- (a) During the fifteen months ended 31 December 2017, the Group has acquired ordinary membership of the CGSE from an independent third party at a consideration of HK\$10,000,000.

The above trading licence has indefinite useful life and was stated at cost less any impairment losses.

11. TRADE RECEIVABLES

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|-------------------|--|--|
| Trade receivables | <u>66,958</u> | <u>28,602</u> |

The Group's credit term with its customers is, in general, 7 to 45 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The aging analysis of the trade receivables, based on the invoice date, are as follows:

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|--------------------|--|--|
| Current to 30 days | 6,499 | 12,738 |
| 31 – 60 days | 18,043 | 11,773 |
| 61 – 90 days | 6,192 | 1,425 |
| Over 90 days | <u>36,224</u> | <u>2,666</u> |
| | <u>66,958</u> | <u>28,602</u> |

12. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|-----------------------|--|--|
| Deposits | 12,674 | 12,252 |
| Prepayments | 3,203 | 3,614 |
| Interest receivables | 24 | 23 |
| Retention receivables | 220 | 455 |
| Other receivables | <u>20</u> | <u>–</u> |
| | <u>16,141</u> | <u>16,344</u> |

13. TRADE PAYABLES

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|----------------|--|--|
| Trade payables | <u>21,387</u> | <u>22,774</u> |

The aging analysis of trade payables, based on the invoice date are as follows:

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|--------------------|--|--|
| Current to 30 days | 8,632 | 12,502 |
| 31 – 60 days | 2,345 | 7,384 |
| 61 – 90 days | 5,829 | 1,764 |
| Over 90 days | <u>4,581</u> | <u>1,124</u> |
| | <u>21,387</u> | <u>22,774</u> |

The credit period on purchases of certain goods and services is within 7 to 90 days.

14. ACCRUED EXPENSES AND OTHER PAYABLES

| | As at 30 June 2018 <i>HK\$'000</i> Unaudited | As at 31 December 2017 <i>HK\$'000</i> Audited |
|--------------------|--|--|
| Receipt in advance | 10,369 | 20,474 |
| Accrued expenses | 5,750 | 5,545 |
| Other payables | <u>–</u> | <u>178</u> |
| | <u>16,119</u> | <u>26,197</u> |

15. EVENTS AFTER THE REPORTING PERIOD

On 20 July 2018, the Company was informed by Starcross Group Limited (the “Offeror”) that State Energy HK Limited (Receivers appointed pursuant to a share charge dated 12 February 2018 over the charged assets including the Sale Shares (as defined below) beneficially owned by State Energy HK Limited (the “Vendor”) as vendor and the Offeror as purchaser entered into a sale and purchase agreement (the “Sale and Purchase Agreement”), pursuant to which the Vendor agreed to sell 375,000,000 shares of HK\$0.01 each in the issued share capital of the Company (the “Sale Shares”) and the Offeror agreed to acquire the Sale Shares for a consideration of HK\$337,500,000 (equivalent to HK\$0.90 per Sale Share) in accordance with the terms and conditions of the Sale and Purchase Agreement. A supplemental agreement to the Sale and Purchase Agreement has been entered into on 27 July 2018. The Sale Shares collectively represent 75% of the existing issued share capital of the Company. As informed by the Offeror, the sale and purchase of the Sale Shares has been completed on 27 July 2018.

On 1 August 2018, the Offeror published an announcement (the “Offer Announcement”) in respect of (i) the Sale and Purchase Agreement; and (ii) the unconditional mandatory cash general offer (the “Offer”) to be made by Guotai Junan Securities (Hong Kong) Limited on behalf of the Offeror for all the share(s) of the Company (each a “Share”) in issue, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code.

Further details are set out in the Offer Announcement and the announcement of the Company dated 2 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded revenue of HK\$139.6 million for the six months ended 30 June 2018 (the “Period”), an increase by 219.7% as compared with HK\$43.7 million for the six months ended 30 June 2017. During the Period, the overall gross profit improved to HK\$21.4 million, representing an increase by HK\$8.0 million as compared with HK\$13.4 million for the six months ended 30 June 2017. Such increase was mainly due to the revenue contributed from the construction and ancillary services of non-residential projects and the business of aviation and traveling business.

However, the Group recorded a consolidated net loss of HK\$10.2 million for the Period as compared with a consolidated net loss of HK\$5.6 million for the six months ended 30 June 2017. The net loss for the Period was mainly due to the decrease in gross profit margin from construction and ancillary services business and the increase in operating expenses for preparing, setting up and operating new business of the Group.

On 14 March 2018, the Group has obtained the licenses for regulated activities under Securities and Futures Ordinance (the “SFO”) to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities (as defined in the SFO). The Group is in the stage of planning these regulated activities under SFO and never commence any regulated business during the Period.

FINANCIAL REVIEW

Revenue

During the Period, the revenue of the Group increased by 219.7% to HK\$139.6 million (six months ended 30 June 2017: HK\$43.7 million) and the overall gross profit of the Group increased by 60.2% to HK\$21.4 million (six months ended 30 June 2017: HK\$13.4 million). Such increase was mainly due to the revenue contributed from the construction and ancillary services of non-residential projects and the business of aviation and traveling business. The Group recorded a net loss of HK\$10.2 million for the Period mainly due to the decrease in gross profit margin from construction and ancillary services business and the increase in operating expenses for preparing, setting up and operating new business of the Group.

Business Review

The Group’s business segments include three major segments, namely construction and ancillary services, aviation and traveling services and financial services.

During the Period, the business of construction and ancillary services and aviation and traveling services contributed revenue to the Group, but no revenue contributed by financial services because the Group is in the stage of business planning. A breakdown of the revenue was listed below:

| | Six months ended 30 June 2018 | | Six months ended 30 June 2017 | |
|-------------------------------------|--|-------------------|----------------------------------|-------------------|
| | HK\$'000 | % | HK\$'000 | % |
| Construction and ancillary services | 105,846 | 76 | 43,669 | 100 |
| Aviation and traveling services | 33,775 | 24 | – | – |
| Revenue | <u>139,621</u> | <u>100</u> | <u>43,669</u> | <u>100</u> |

Construction and ancillary services

Construction and ancillary services which include design, fitting out, decoration, alteration and addition, construction and other related business were the focus of our business in the Period. During the Period, the revenue from construction and ancillary services increased by 142.4% to HK\$105.8 million (six months ended 30 June 2017: HK\$43.7 million). The increase in revenue from this segment mainly due to the contribution from customers which demand our construction and ancillary services for their office premises. However, the gross profit margin of the construction and ancillary services of non-residential projects was relatively lower than that of residential projects.

Aviation and traveling services

The Group provides aircraft management service for our customers including flight scheduling, aircraft maintenance and crew management. During the Period, the revenue from aircraft management service was HK\$33.8 million (six months ended 30 June 2017: nil).

On 13 April 2018, Smart Empire Global Limited (“Smart Empire”), an indirect wholly owned subsidiary of the Company, BAA Jet Management Limited (“BAA”), a top business jet management company in China and Himalaya Business Aviation Limited (“HBA”), an indirect non wholly-owned subsidiary of the Company entered into the conditional sale and purchase agreement dated 13 April 2018 (the “Acquisition Agreement”), pursuant to which Smart Empire conditionally agreed to acquire 49% equity interest in HBA from BAA, for a cash consideration of HK\$4,900,000. The completion of the Acquisition Agreement (the “Completion”) has taken place on 20 April 2018. Upon the Completion, BAA ceased to hold any equity interests in HBA and ceased to be a connected person of the Company in the subsidiary level and HBA becomes an indirect wholly-owned subsidiary of the Company. For details of Acquisition Agreement, please refer to the announcements of the Company dated 13 April 2018 and 20 April 2018 respectively.

In July 2018, the aircraft management agreements of the Group were terminated. The Group is looking for potential customers for our aircraft management services.

Financial services

In order to capture liberation of China's capital market, the Group has explored business opportunities in segment of financial services.

Precious metal trading

The Group obtained the ordinary membership (the "Membership") of The Chinese Gold and Silver Exchange Society ("CGSE") on 6 September 2017. Found in 1910, CGSE is the sole exchange in Hong Kong which trades physical gold and silver. Run on a membership-based system, CGSE provides an exchange, facilities and related services for its members for transaction of precious metals. The Membership allows its holder to provide trading services of gold, silver and precious metals for its customers and molding of physical gold/silver bullion under physical gold and silver. During the Period, no revenue was generated from the business of precious metal trading.

Financial Advisory Services

On 14 March 2018, the Group has obtained the licenses for regulated activities under SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities (as defined in the SFO). The Group does not intend to conduct any regulated business until the approval grant by the SFC to the Offeror becoming a substantial shareholder of all members of the Group. For details of unconditional mandatory cash offer by the Offeror, please refer to the announcement of Offeror dated 1 August 2018 and the announcement of the Company dated 2 August 2018 respectively.

Administrative expenses

The administrative expenses increased by HK\$12.2 million from HK\$17.5 million for the six months ended 30 June 2017 to HK\$29.7 million for the six months ended 30 June 2018. This was mainly attributable to the increase in the operating expenses for preparing new businesses and general administrative purpose.

Loss for the period

As a result of the foregoing, the Group recorded a consolidated net loss of HK\$10.2 million for the Period as compared with a consolidated net loss of HK\$5.6 million for the six months ended 30 June 2017.

PROSPECT

The Offeror intends that the Group will continue to operate its existing business. After the close of the unconditional mandatory cash general offer (the “Offer”) to be made by Guotai Junan Securities (Hong Kong) Limited on behalf of Starcross Group Limited (the “Offeror”) for all the shares of the Company (the “Shares”) in issue, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it, the Offeror will conduct a detailed review of the financial position and business operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. As at the date of this announcement the Offeror has not identified such investment or business opportunities.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 47 employees (31 December 2017: 40) in Hong Kong and the PRC. The total remuneration paid by the Group to its employees (including directors) for the current financial period was HK\$17.0 million (six months ended 30 June 2017: HK\$8.3 million).

The objective of the Group’s remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration paid to its employees (including directors and senior management), the following factors are considered:

- workload, responsibility and job complexity;
- business requirements;
- individual performance and contribution to results;
- company performance and profitability;
- retention considerations and the potential of individuals;
- corporate goals and objectives;
- market rates and changes in relevant markets, including supply and demand fluctuations and changes in competitive conditions; and
- general economic situation.

In addition to salaries, provident fund scheme and medical insurance coverage and discretionary bonuses are available to employees. Level of remuneration is reviewed annually. During the review process, no individual director is involved in decisions relating to his own remuneration.

MATERIAL ACQUISITIONS OR DISPOSALS

On 13 April 2018, Smart Empire, an indirect wholly-owned subsidiary of the Company, BAA, a top business jet management company in China and HBA, an indirect non wholly-owned subsidiary of the Company entered into the Acquisition Agreement on 13 April 2018, pursuant to which Smart Empire conditionally agree to acquire 49% equity interest in HBA from BAA, for a cash consideration of HK\$4,900,000. The completion of the Acquisition Agreement (the “Completion”) has taken place on 20 April 2018. Upon the Completion, HBA becomes an indirect wholly-owned subsidiary of the Company. For details of Acquisition Agreement, please refer to the announcement of the Company dated 13 April 2018 and 20 April 2018 respectively.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, the Group had total cash and bank balances of HK\$71.3 million (31 December 2017: HK\$134.5 million) mainly denominated in Hong Kong dollars.

The Group continued to maintain a healthy liquidity position. At as 30 June 2018, the Group had net current assets of HK\$123.1 million (31 December 2017: HK\$136.3 million). The Group had current ratio of approximately 4.3 times as at 30 June 2018 compared to that of approximately 3.8 times as at 31 December 2017.

The gearing ratio of the Group is defined as a percentage of interest-bearing liabilities divided by total equity. As at 30 June 2018, the Group did not have any borrowing (31 December 2017: Nil). Hence, as at 30 June 2018, the gearing ratio was Nil (31 December 2017: Nil). The Group’s working capital requirements were mainly financed by internal resources.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue in Hong Kong dollars and Renminbi and also incurs cost in Hong Kong dollars and Renminbi. The Group is exposed to foreign exchange risk with respect mainly to Renminbi which may affect the Group’s performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group to see if any hedging policy is necessary. The Group currently does not have any foreign currency hedging policy.

PLEDGE OF ASSETS

There was no pledged asset as at 30 June 2018 (31 December 2017: Nil).

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds from the Company’s share offer in September 2015 amounted to HK\$100 million (after deducting underwriting commissions and all related expenses).

In the year of 2017, the Group started to broaden its customers base to corporate customers which demand our construction and ancillary services for their office premises in Hong Kong. With reference to announcements dated 16 October 2017, 7 November 2017 and 15 November 2017, the Group awarded contracts of HK\$123.5 million for design and build works for residential property projects and office premises and substantial works for these projects will be conducted and completed in 2018. The Group is eager to acquire more projects of construction and ancillary services in 2018.

In order to better deploy the resources of the Group, the Board decided to re-allocate HK\$45 million which is originally planned for financing the potential acquisition of companies and or/businesses which are primarily engaged in DFD works and the complement our existing business so as to expand our contracting capabilities (the “Potential Acquisition”) to working capital for awarded, ongoing and future construction and ancillary services projects of HK\$25 million and to additional working capital and other general corporate purposes which include rental expense, directors’ remuneration, staff salary and other corporate expenses of HK\$20 million. The original plans for the Potential Acquisitions will be withheld and/or financed by internally generated resources of the Group. Further details are set out in the announcements dated 13 April 2018, 12 July 2017 and 9 May 2017 respectively.

The proposed use of net proceeds from the listing, and details of the original allocation of the net proceeds, and the utilisation of the net proceeds as at 30 June 2018 are set out below:

| Planned use | Original allocation <i>HK\$ million</i> | Revised allocation <i>HK\$ million</i> | Utilisation <i>HK\$ million</i> | Remaining balances <i>HK\$ million</i> |
|--|---|--|---|--|
| Financing the potential acquisition of companies and or/businesses which are primary engaged in DFD works and that complement our existing business so as to expand our contracting capabilities | 45.0 | – | – | – |
| Financing the establishment of new regional offices in the PRC | 20.0 | 20.0 | – | 20.0 |
| Promoting our brand by strengthening our marketing efforts to increase our market share | 15.0 | – | – | – |
| Recruiting high caliber talents in management, design, decoration, finance, sales and marketing and enhance internal training to support future growth | 10.0 | 4.9 | 4.9 | – |
| Additional working capital and other general corporate purposes | 10.0 | 30.0 | 13.6 | 16.4 |
| Precious metal trading business | – | 15.0 | 12.1 | 2.9 |
| Payment of the subscription price under the subscription agreement as disclosed in the announcement dated 12 July 2017 | – | 5.1 | 5.1 | – |
| Working Capital for awarded, ongoing and future construction and ancillary services projects of the Group | – | 25.0 | 1.4 | 23.6 |
| | <u>100.0</u> | <u>100.0</u> | <u>37.1</u> | <u>62.9</u> |

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS

The Group had no significant outstanding capital commitment as at 30 June 2018 (31 December 2017: Nil).

INTERIM DIVIDEND

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises two executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (“CG Code”) set out in Appendix 14 to the Listing Rules. During the six months ended 30 June 2018 and up to the date of this announcement, the Company has complied with the code provisions under the CG Code, except for the following deviations:

Pursuant to the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Mr. LIU Yong Sheng (“Mr. LIU”) resigned as an executive Director and the chief executive officer of the Company on 10 April 2018. After the resignation of Mr. LIU, no individual was appointed as chief executive officer of the Company. The role of the chief executive officer has been performed by the Chairman and executive directors of the Company. The Board will keep on identifying suitable candidate to assume duties as chief executive officer as soon as possible.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Directors have adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in dealing in the Company’s securities. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code for the six months ended 30 June 2018.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities for the six months ended 30 June 2018.

AUDIT COMMITTEE

The audit committee (the “**Audit Committee**”) of the Board was established on 13 August 2015. The Audit Committee comprises three independent non-executive Directors, namely Mr. YU Haizong, Mr. LIU Gang and Ms. AN Yiqing.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018. The unaudited condensed consolidated financial statements for the six months ended 30 June 2018 were approved and authorised for issue by the Directors on 24 August 2018.

By Order of the Board
Royal China International Holdings Limited
DENG Kui
Chairman

Hong Kong, 24 August 2018

As at the date of this announcement, the Board comprises Mr. DENG Kui and Mr. LEONG Hing Loong Rudoff as executive Directors; and Mr. LIU Gang, Mr. YU Haizong and Ms. AN Yiqing as independent non-executive Directors.