

2019 INTERIM REPORT

中彩網通控股有限公司
China Netcom Technology Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8071)





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HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended 30 June 2019 was approximately HK\$41,403,000 (six months ended 30 June 2018: approximately HK\$12,419,000), representing an increase of approximately 233% as compared with that for the corresponding period in 2018.
- The Group recorded an unaudited consolidated profit attributable to owners of the Company of approximately HK\$16,074,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: unaudited consolidated loss attributable to owners of the Company of approximately HK\$4,034,000).
- The unaudited basic and diluted earnings per share of the Company was approximately HK0.34 cent for the six months ended 30 June 2019 (six months ended 30 June 2018: unaudited basic and diluted loss per share of approximately HK0.09 cent).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

RESULTS

The board of Directors (the “**Board**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2019 (Unaudited)

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2019	2018	2019	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	23,549	7,542	41,403	12,419
Cost of sales and services		(3,813)	(2,396)	(8,892)	(4,655)
Gross profit		19,736	5,146	32,511	7,764
Other income and (losses)/gains, net		(3,384)	1,546	(1,346)	2,266
Administrative expenses		(3,810)	(6,089)	(7,638)	(10,917)
Finance costs	5	(789)	(379)	(1,489)	(1,081)
Profit/(loss) before tax		11,753	224	22,038	(1,968)
Income tax charge	6	(4,438)	(2,560)	(7,224)	(3,008)
Profit/(loss) for the period	7	7,315	(2,336)	14,814	(4,976)
Other comprehensive expense					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(2,050)	(1,574)	(545)	(492)
Other comprehensive expense for the period		(2,050)	(1,574)	(545)	(492)
Total comprehensive income/ (expense) for the period		5,265	(3,910)	14,269	(5,468)

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
<i>Note</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) attributable to:				
Owners of the Company	7,874	(1,484)	16,074	(4,034)
Non-controlling interests	(559)	(852)	(1,260)	(942)
	7,315	(2,336)	14,814	(4,976)
Total comprehensive income/ (expense) attributable to:				
Owners of the Company	5,825	(3,039)	15,491	(4,435)
Non-controlling interests	(560)	(871)	(1,222)	(1,033)
	5,265	(3,910)	14,269	(5,468)
Earnings/(loss) per share				
– Basic and diluted				
(HK cents per share)	0.16	(0.03)	0.34	(0.09)

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The notes on pages 10 to 20 form part of this interim financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Unaudited)

		(Unaudited) 30 June 2019 <i>HK\$'000</i>	(Audited) 31 December 2018 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	8,355	9,964
Right-of-use assets		26,343	–
Financial asset at fair value through other comprehensive income		350	350
Deferred tax assets		10	–
		35,058	10,314
Current assets			
Inventories		508	522
Quality assurance fund receivables		14,553	10,623
Contract assets		29,542	23,737
Trade and other receivables	10	3,188	6,826
Amount due from ultimate holding company		23	–
Amount due from a non-controlling interest of a subsidiary		6,957	6,978
Amount due from a fellow subsidiary		2,156	1,394
Financial assets at fair value through profit or loss		–	22,058
Tax recoverable		256	–
Restricted cash		8,242	6,833
Cash and bank balances		53,399	18,369
		118,824	97,340

	(Unaudited)	(Audited)
	30 June	31 December
	2019	2018
<i>Note</i>	HK\$'000	HK\$'000
Current liabilities		
Quality assurance fund payables	17,789	13,688
Trade and other payables	7,221	10,070
Contract liabilities	288	143
Receipt in advance	870	1,094
Lease liabilities	6,099	–
Amount due to an intermediate holding company	931	598
Amount due to a non-controlling interest of a subsidiary	246	247
Current tax liabilities	5,685	3,631
	39,129	29,471
Net current assets	79,695	67,869
Total assets less current liabilities	114,753	78,183

	(Unaudited) 30 June 2019 HK\$'000	(Audited) 31 December 2018 HK\$'000
Non-current liabilities		
Lease liabilities	22,155	–
Convertible bonds	14,521	13,768
Deferred tax liabilities	2,624	2,748
	39,300	16,516
Net assets	75,453	61,667
Capital and reserves		
Share capital – ordinary shares	23,355	23,355
Reserves	50,697	35,451
Equity attributable to owners of the Company	74,052	58,806
Non-controlling interests	1,401	2,861
Total equity	75,453	61,667

The notes on pages 10 to 20 form part of this interim financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 (Unaudited)

	Attributable to owners of the Company										
	Share capital - ordinary shares	Share premium account	Capital contribution reserve	Capital redemption reserve	Convertible bonds equity reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2018	23,147	3,393,805	9,628	1	16,341	118,414	(49)	(3,535,629)	7,658	(282)	7376
Loss for the period	-	-	-	-	-	-	-	(4,034)	(4,034)	(942)	(4,976)
Other comprehensive expense for the period	-	-	-	-	-	(401)	-	-	(401)	(91)	(492)
Total comprehensive expense for the period	-	-	-	-	-	(401)	-	(4,034)	(4,435)	(1,033)	(5,468)
Exercise of convertible bonds	208	49,792	-	-	(12,406)	-	-	-	37,594	-	37,594
Balance at 30 June 2018	23,355	3,443,597	9,628	1	3,935	118,013	(49)	(3,557,663)	40,817	(1,315)	39,502

	Attributable to owners of the Company											
	Share capital - ordinary shares	Share premium account	Capital contribution reserve	Capital redemption reserve	Convertible bonds equity reserve	Financial asset at fair value through other comprehensive income reserve	Foreign currency translation reserve	Other reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2019 (Originally stated)	23,355	3,443,597	9,777	1	3,935	235	115,387	(49)	(3,537,432)	58,806	2,861	61,667
Effect on adoption of HKFRS 16	-	-	-	-	-	-	13	-	(258)	(245)	(238)	(483)
Balance at 1 January 2019 (Restated)	23,355	3,443,597	9,777	1	3,935	235	115,400	(49)	(3,537,690)	58,561	2,623	61,184
Profit/(loss) for the period	-	-	-	-	-	-	-	-	16,074	16,074	(1,260)	14,814
Other comprehensive (expense)/income for the period	-	-	-	-	-	-	(583)	-	-	(583)	38	(545)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	(583)	-	16,074	15,491	(1,222)	14,269
Balance at 30 June 2019	23,355	3,443,597	9,777	1	3,935	235	114,817	(49)	(3,521,616)	74,052	1,401	75,453

The notes on pages 10 to 20 form part of this interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 (Unaudited)

	(Unaudited)	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Net cash generated from/(used in) operating activities	16,549	(21,398)
Net cash generated from/(used in) investing activities	22,559	(10,286)
Net cash used in financing activities	(3,392)	(598)
Net increase/(decrease) in cash and cash equivalents	35,716	(32,282)
Cash and cash equivalents at the beginning of period	18,369	59,173
Effect of foreign exchange rate changes, net	(686)	197
Cash and cash equivalents at the end of period	53,399	27,088
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	53,399	27,088

The notes on pages 10 to 20 form part of this interim financial information.



Notes:

1 BASIS OF PREPARATION AND IMPACT OF NEW HKFRSs AND HKASs

The unaudited consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standards (“**HKASs**”) 34 “Interim Financial Reporting”, other relevant HKASs and Interpretations (“**Ints**”) and Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure required by the GEM Listing Rules. It has been prepared under historical cost convention.

The unaudited consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints).

In the current interim period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting period beginning on 1 January 2019. The impact of the adoption of the new and revised HKFRSs are disclosed in note 2.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

The unaudited consolidated financial statements 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 year ended 31 December 2018.

2 CHANGES IN ACCOUNTING POLICIES

The unaudited consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2019 has been prepared in accordance with the same accounting policies adopted in the Group’s annual financial statements for the year ended 31 December 2018, except for the adoption of the new and revised HKFRSs (which include individual HKFRSs, HKASs and Ints) issued by the HKICPA that are relevant to the Group’s operations and effective for its accounting period beginning on 1 January 2019. The effect of the adoption of these new and revised HKFRSs in the current period has had no material impact on the Group’s financial performance and position of the current and prior periods except for the adoption of HKFRS 16 “Leases” as described in the paragraph below.

HKFRS 16 “Leases”

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate. Lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payments that are based on an index or a rate.

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position.

Each lease payment is allocated between the principal repayment of lease liabilities and finance cost. The finance cost is charged to the consolidated statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the lease liabilities for each period. The right-of-use assets are depreciated over the shorter of the assets’ useful life and the lease term on a straight-line basis.

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2018 has not been restated. The impacts of adopting HKFRS 16 on the opening balance of the unaudited consolidated financial statements are as follows:

Unaudited consolidated statement of financial position (extracted)

	As at 1 January 2019		
	Originally presented	Effect of adoption of	Restated
	HK\$’000	HKFRS 16 HK\$’000	HK\$’000
Right-of-use assets	–	29,007	29,007
Trade and other receivables	6,826	(618)	6,208
Trade and other payables	(10,070)	498	(9,572)
Current lease liabilities	–	(8,054)	(8,054)
Non-current lease liabilities	–	(21,316)	(21,316)
Foreign currency translation reserve	115,387	13	115,400
Accumulated losses	(3,537,432)	(258)	(3,537,690)
Non-controlling interests	2,861	(238)	2,623

The unaudited reconciliation of operating lease commitment to lease liabilities is set out below:

	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	31,407
Discounted using the lessee's incremental borrowing rate at the date of initial application	(2,112)
Less: short-term leases recognised on a straight-line basis as expenses	(452)
Less: low-value assets leases recognised on a straight-line basis as expenses	(31)
Add: others	558
	<hr/>
Lease liabilities recognised as at 1 January 2019	29,370
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Of which are:	
– Current lease liabilities	8,054
– Non-current lease liabilities	21,316
	<hr/>
	29,370
	<hr/>

3 REVENUE

An analysis of the Group's revenue for the below mentioned periods is as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit referral and service fee	20,308	6,223	35,069	7,735
Apartment leasing	2,461	437	4,832	437
Sale of smart wearable devices	2	18	25	2,674
Provision of management, marketing and operating services for lottery system and lottery halls	185	266	330	456
Provision of sports training services	593	598	1,147	1,117
	23,549	7,542	41,403	12,419

4 SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

- financial technology services business – provision of credit referral and services (including credit facilitation services, post-origination services and financial guarantee services);
- apartment leasing business – management of apartment leasing for property owners and lessees;
- smart wearable device business – research, development and sale of smart wearable devices;
- lottery business – development of computer software, hardware and application system, sale of self-developed technology or results, provision of relevant technical consultancy services in the People's Republic of China (the "PRC") and development and provision of operation system sector of the PRC lottery market; and
- sports training business – provision of sports training services.

The following tables present the revenue and results for the six months ended 30 June 2019 and the six months ended 30 June 2018, and the total assets and total liabilities as at 30 June 2019 and 31 December 2018 for each of the Group's business segments:

	Financial technology services business <i>HK\$'000</i>	Apartment leasing business <i>HK\$'000</i>	Smart wearable device business <i>HK\$'000</i>	Lottery business <i>HK\$'000</i>	Sports training business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended						
30 June 2019 (Unaudited)						
Segment revenue	<u>35,069</u>	<u>4,832</u>	<u>25</u>	<u>330</u>	<u>1,147</u>	<u>41,403</u>
Segment profit/(loss)	<u>31,947</u>	<u>(2,669)</u>	<u>(915)</u>	<u>(1,144)</u>	<u>(68)</u>	<u>27,151</u>
Interest on bank deposits, other income and losses, net						<u>(1,346)</u>
Central administration costs						<u>(3,767)</u>
Profit before tax						<u>22,038</u>
	Financial technology services business <i>HK\$'000</i>	Apartment leasing business <i>HK\$'000</i>	Smart wearable device business <i>HK\$'000</i>	Lottery business <i>HK\$'000</i>	Sports training business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended						
30 June 2018 (Unaudited)						
Segment revenue	<u>7,735</u>	<u>437</u>	<u>2,674</u>	<u>456</u>	<u>1,117</u>	<u>12,419</u>
Segment profit/(loss)	<u>4,833</u>	<u>(1,698)</u>	<u>(1,276)</u>	<u>(1,950)</u>	<u>(32)</u>	<u>(123)</u>
Interest on bank deposits, other income and gains, net						<u>2,266</u>
Central administration costs						<u>(4,111)</u>
Loss before tax						<u>(1,968)</u>

	Financial technology services business <i>HK\$'000</i>	Apartment leasing business <i>HK\$'000</i>	Smart wearable device business <i>HK\$'000</i>	Lottery business <i>HK\$'000</i>	Sports training business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2019						
(Unaudited)						
Segment assets	93,298	39,165	3,103	1,478	2,752	139,796
Corporate and unallocated assets						<u>14,086</u>
Consolidated assets						<u>153,882</u>
Segment liabilities	24,724	29,024	177	20,658	247	74,830
Corporate and unallocated liabilities						<u>3,599</u>
Consolidated liabilities						<u>78,429</u>
	Financial technology services business <i>HK\$'000</i>	Apartment leasing business <i>HK\$'000</i>	Smart wearable device business <i>HK\$'000</i>	Lottery business <i>HK\$'000</i>	Sports training business <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 2018						
(Audited)						
Segment assets	66,466	16,653	3,914	1,607	2,782	91,422
Corporate and unallocated assets						<u>16,232</u>
Consolidated assets						<u>107,654</u>
Segment liabilities	20,283	3,546	103	19,827	148	43,907
Corporate and unallocated liabilities						<u>2,080</u>
Consolidated liabilities						<u>45,987</u>

5 FINANCE COSTS

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Effective interest on convertible bonds	379	379	753	1,081
Interest expenses on lease liabilities	410	–	736	–
	789	379	1,489	1,081

6 INCOME TAX CHARGE

Income tax recognised in profit or loss

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Current tax				
– PRC Enterprise Income Tax	(4,501)	(2,622)	(7,348)	(3,186)
Deferred tax	63	62	124	178
Total income tax charge recognised in profit or loss	(4,438)	(2,560)	(7,224)	(3,008)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising in or derived from Hong Kong for both periods.

Under the prevailing tax law in the PRC, the Enterprise Income Tax rate of the PRC subsidiaries is 25% for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Group did not have any significant unprovided deferred tax liabilities at 30 June 2019 and 31 December 2018.

7 PROFIT/(LOSS) FOR THE PERIOD

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period has been arrived at after (crediting)/charging:				
Bank interest income	(97)	(70)	(150)	(118)
Net foreign exchange gain	(233)	(642)	(113)	(163)
Reversal of impairment loss of trade receivables	-	(834)	-	(1,984)
Interest income on financial assets at fair value through profit or loss	(35)	-	(165)	-
Quality assurance fund recovered	165	-	(187)	-
Quality assurance fund loss/(gain), net	3,098	-	(1,275)	-
Auditor's remuneration	256	-	506	-
Employee benefits expenses (excluding Directors' emoluments)				
– Salaries, bonus and other benefits in kind	2,020	3,132	4,593	4,927
– Contributions to retirement benefits schemes	337	326	602	506
Directors' emoluments	301	301	603	603
Short-term leases expenses	100	-	217	-
Low-value assets leases expenses	3	-	6	-
Minimum lease payments paid under operating leases in respect of land and buildings	-	1,753	-	2,402
Depreciation of property, plant and equipment	999	935	1,706	1,184
Depreciation of right-of-use assets	2,155	-	4,449	-
Loss on disposal of property, plant and equipment	-	99	-	99
Impairment of contract assets	592	36	3,342	36

8 EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings/(loss)				
Earnings/(loss) for the period attributable to owners of the Company for the purposes of basic and diluted earnings/(loss) per share	7,874	(1,484)	16,074	(4,034)

Number of shares

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2019	2018	2019	2018
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(loss) per share	4,671,035	4,671,035	4,671,035	4,665,280

The computation of diluted earnings/(loss) per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's convertible bonds since their exercise and conversion would have an anti-dilutive effect.

9 PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Net book value, beginning of the period/year	9,964	2,713
Additions	110	10,390
Disposals	–	(424)
Depreciation	(1,706)	(2,357)
Effect of foreign currency exchange differences	(13)	(358)
Net book value, end of the period/year	8,355	9,964
Cost	15,705	15,701
Accumulated depreciation	(7,350)	(5,737)
Net book value, end of the period/year	8,355	9,964

10 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the ageing analysis of trade and other receivables, based on the respective revenue recognition date and net of loss allowance, is as follows:

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
0 – 30 days	144	67
31 – 60 days	56	78
61 – 90 days	52	–
Over 90 days	236	–
Trade receivables, net of loss allowance	488	145
Deposits, other receivables and prepayments	2,700	6,681
	3,188	6,826

The credit terms granted to customers are varied and are generally the result of negotiation between individual customer and the Group.

11 TRADE AND OTHER PAYABLES

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

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
0 – 30 days	519	1,157
31 – 60 days	73	315
61 – 90 days	34	100
Over 90 days	349	338
Total trade payables	975	1,910
Other payables and accruals	6,246	8,160
Total trade and other payables	7,221	10,070

12 RELATED PARTY TRANSACTIONS

Save as disclosed in this report, the Group had the following significant transactions with related parties during the period:

Compensation of key management personnel

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

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Short-term benefits	292	292	585	585
Post-employment benefits	9	9	18	18
	301	301	603	603

13 INTERIM DIVIDEND

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



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Financial Technology Services Business

For the six months ended 30 June 2019, the financial technology services business of the Group maintained a positive development momentum, with the loan facilitation volume amounting to approximately RMB530 million. For the six months ended 30 June 2019, the financial technology services business of the Group recorded a revenue of approximately HK\$35,069,000 (six months ended 30 June 2018: approximately HK\$7,735,000).

Apartment Leasing Business

For the six months ended 30 June 2019, the apartment leasing business of the Group maintained a sustainable and stable operation, and has cumulatively secured the agency rights of 239 apartments (with 814 rooms in total) and successfully procured the leasing of 699 rooms thereof. However, the apartment leasing business is still loss-making due to certain fixed operating expenses. For the six months ended 30 June 2019, the apartment leasing business of the Group recorded a revenue of approximately HK\$4,832,000 (six months ended 30 June 2018: approximately HK\$437,000) and a loss of approximately HK\$2,669,000 (six months ended 30 June 2018: loss of approximately HK\$1,698,000). The increase in loss for the six months ended 30 June 2019 was propelled by the change in accounting policy for leases as detailed in note 2 to the financial statements.

Smart Wearable Device Business

For the six months ended 30 June 2019, sales of smart glasses and smart fitness watches of the Group generated revenue of approximately HK\$8,000 and HK\$17,000 (six months ended 30 June 2018: approximately HK\$208,000 and HK\$2,466,000). The Group recorded a loss of approximately HK\$915,000 for the six months ended 30 June 2019. This was mainly attributable to the slowdown of the smart glasses and smart fitness watches market.

The technology barrier of both products is not high and the entry barrier of industry is quite low which resulted in fierce price competition and certain resistance to product sales. In the future, the Group will closely monitor the operation of the smart wearable device business to formulate suitable development strategy.

Lottery Business

As at 30 June 2019, the Group had submitted applications for the establishment of 1,629 sales points in various cities in Shandong, China and 1,011 of which had been approved. For the six months ended 30 June 2019, the Group's lottery business generated revenue of approximately HK\$330,000 (six months ended 30 June 2018: approximately HK\$456,000).

The enhanced control over the lottery industry by the PRC government and the fierce competition in the lottery business led to a decrease in the Group's lottery sales and a loss of approximately HK\$1,144,000 for the six months ended 30 June 2019. In the future, the Group will closely monitor the operation of the lottery business to formulate a suitable development strategy.

Sports Training Business

The Group operates the Hui So Hung Table Tennis Training Centre in Hong Kong to provide table tennis training services to students with different ages and levels. The Group's sports training business maintained a stable operation and revenue during the first half year. For the six months ended 30 June 2019, the sports training business had recorded a revenue of approximately HK\$1,147,000 (six months ended 30 June 2018: approximately HK\$1,117,000) and a loss of approximately HK\$68,000 (six months ended 30 June 2018: loss of approximately HK\$32,000).

Financial Review

For the six months ended 30 June 2019, the Group recorded an unaudited revenue of approximately HK\$41,403,000 (six months ended 30 June 2018: approximately HK\$12,419,000), representing an increase of approximately 233% as compared with that of the corresponding period in 2018. The revenue of the Group was derived from its (i) financial technology services business; (ii) apartment leasing business; (iii) smart wearable device business; (iv) lottery business; and (v) sports training business. For the six months ended 30 June 2019, the unaudited consolidated profit attributable to owners of the Company was approximately HK\$16,074,000 (six months ended 30 June 2018: unaudited consolidated loss attributable to owners of the Company of approximately HK\$4,034,000). The Group's profit for the six months ended 30 June 2019 was mainly attributable to the profit contribution from the Group's financial technology services business.



Liquidity and gearing ratio

As at 30 June 2019, the Group recorded total assets of approximately HK\$153,882,000 (31 December 2018: approximately HK\$107,654,000), total liabilities of approximately HK\$78,429,000 (31 December 2018: approximately HK\$45,987,000) and cash and bank balances (excluding restricted cash) of approximately HK\$53,399,000 (31 December 2018: approximately HK\$18,369,000). As at 30 June 2019, the gearing ratio of the Group was approximately 19% (31 December 2018: approximately 22%), based on the total borrowings of approximately HK\$14,521,000 (31 December 2018: approximately HK\$13,768,000) and the total equity of approximately HK\$75,453,000 (31 December 2018: approximately HK\$61,667,000). Total borrowings solely represent the outstanding amount of the Company's convertible bonds. The gearing ratio of the Group had been stable.

Capital structure

The capital structure of the Group mainly consists of convertible bonds and equity attributable to equity shareholders of the Group comprising of issued share capital and reserves. The convertible bonds carry zero coupon and will mature on 26 August 2020. As at 30 June 2019, the Company's total number of issued ordinary shares of HK\$0.005 each ("**Shares**") was 4,671,035,048 (31 December 2018: 4,671,035,048 Shares).

Charges on the Group's assets

As at 30 June 2019, the Group did not have any charges on its assets (31 December 2018: Nil).

Material investments, material acquisition or disposal of subsidiary, associates or joint ventures

During the six months ended 30 June 2019, the Group did not make any material investment nor any material acquisition or disposal of subsidiary, associates or joint ventures.



Capital investment and future plans for material investment or capital asset purchase

During the six months ended 30 June 2019, the Group paid approximately HK\$110,000 (six months ended 30 June 2018: approximately HK\$7,003,000) for the purchase of property, plant and equipment. Save as disclosed in this report, the Group had no specific plan for material investment or acquisition of capital assets during the six months ended 30 June 2019.

Exposure to fluctuation in exchange rates

The Group's sales and purchases were mostly denominated in Hong Kong Dollars ("HK\$") and Renminbi ("RMB").

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of RMB. The appreciation or devaluation of RMB against HK\$ may have impact on the operation results of the Group.

The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arise. No hedging transaction had been entered into by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).



Contingent liabilities

As at 30 June 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

Segmental information

Please refer to note 4 to the financial statements for the segmental information of the Group.

Prospects

The Group's financial technology services business is expected to maintain its growth with brand promotion, user base expansion and experiences accumulation. The Group will also continue to stabilise the apartment leasing business in order to strengthen the Group's financial position. At the same time, subject to the Group's strategy and management's assessments, certain loss-making businesses of the Group may be downsized or ceased with a view to focusing the Group's resources on its profit-making businesses and thereby improving the financial performance of the Group.

Employee information

As at 30 June 2019, the Group had a total of 40 (31 December 2018: 54) employees.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually.

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

As at 30 June 2019, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings in securities by directors of listed issuer as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules (the “Required Standard of Dealings”), were as follows:

Long position in the Shares

Name of Director	Number of Shares	Capacity and nature of interests	Approximate percentage of issued Shares
Mr. Sun Haitao (“Mr. Sun”)	1,834,963,213 ⁽¹⁾	Interest in controlled corporation	39.28%

Note:

- (1) 51RENPIN.COM INC. is wholly-owned by 上海悟牛網絡科技有限公司 (transliterated as Shanghai Wuniu Network Technology Company Limited) (“**Shanghai Wuniu**”), which is in turn wholly-owned by Hangzhou Enniu Network Technology Co., Ltd. (“**Hangzhou Enniu**”). Further, contractual arrangements are entered into between 杭州振牛信息科技有限公司 (transliterated as Hangzhou Zhenniu Information Technology Co., Ltd.) (“**Hangzhou Zhenniu**”) (a company wholly-owned by 51 Credit Card (China) Limited, which is in turn wholly-owned by 51 Credit Card Inc. (shares of which are listed on the Stock Exchange, stock code: 2051), and ultimately controlled by Mr. Sun) (details of which are set out in “Long position in shares of associated corporation” below) and Hangzhou Enniu so that Hangzhou Zhenniu can control Hangzhou Enniu. By virtue of the SFO, Mr. Sun is deemed to be interested in those Shares held by 51RENPIN.COM INC.

Long position in shares of associated corporation

Name of Director	Name of associated corporation	Capacity and nature of interests	Number of shares	Approximate percentage of issued shares
Mr. Sun	51 Credit Card Inc.	Founder of a discretionary trust who can influence how the trustee exercises his discretion ⁽¹⁾	120,076,000	10.05%
		Others ⁽¹⁾	50,355,000	4.22%
		Others ⁽¹⁾	<u>295,697,693</u>	<u>24.76%</u>
			466,128,693	39.03%

Note:

- (1) Rising Sun Limited (the sole shareholder of which is Wukong Ltd., which is beneficially owned by a discretionary trust, Wukong Trust, founded by Mr. Sun), (i) beneficially holds 120,076,000 shares in 51 Credit Card Inc.; (ii) acts as a general partner and controls 51 Xinhua L.P., which in turn holds 50,355,000 shares in 51 Credit Card Inc.; and (iii) holds 295,697,693 shares in 51 Credit Card Inc. through various voting proxies.

Save as disclosed above, as at 30 June 2019, none of the Directors and the chief executive of the Company had or deemed to have any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

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

As at 30 June 2019, so far as was known to the Directors, the persons or entities, other than a Director or chief executive of the Company, who had or deemed to have an interest or a short position in the shares, underlying shares and debentures of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

Name	Capacity and nature of interests	Number of Shares directly or indirectly held and category ⁽³⁾	Approximate percentage of issued Shares
51 Credit Card Inc. ⁽¹⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
51 Credit Card (China) Limited ⁽¹⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
Hangzhou Zhenniu ⁽¹⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
Hangzhou Enniu ⁽¹⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
Shanghai Wuniu ⁽¹⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
51RENPIN.COM INC. ⁽¹⁾	Beneficial owner	1,834,963,213 (L)	39.28%
Mr. Wang Yonghua ("Mr. Wang") ⁽²⁾	Interest in controlled corporation	2,199,963,213 (L)	47.10%
Tian Tu Capital Co., Ltd. ^{(2)*}	Interest in controlled corporation	2,199,963,213 (L)	47.10%

Name	Capacity and nature of interests	Number of Shares directly or indirectly held and category ⁽³⁾	Approximate percentage of issued Shares
Tiantu Advisory Company Limited ⁽²⁾	Interest in controlled corporation	1,834,963,213 (L)	39.28%
Tiantu Investments Limited ⁽²⁾	Person having a security interest in shares	1,834,963,213 (L)	39.28%
Tiantu Investments International Limited ⁽²⁾	Beneficial owner	365,000,000 (L)	7.81%

* *(The English name(s) has/have been transliterated from its/their respective Chinese name(s) and is/are for identification only.)*

Notes:

- (1) Duplicate with those disclosed in the section "INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION" above.
- (2) Tiantu Investments Limited is wholly-owned by Tiantu Advisory Company Limited, which is in turn wholly-owned by 深圳市天圖投資管理股份有限公司 (transliterated as Tian Tu Capital Co., Ltd.) which is owned as to approximately 59.80% by Mr. Wang. Mr. Wang is deemed to be interested in an aggregate of 2,199,963,213 Shares, of which 1,834,963,213 Shares held by 51RENPIN.COM INC. is charged in favour of Tiantu Investments Limited and 365,000,000 Shares are held by Tiantu Investments International Limited, a company wholly-owned by Tian Tu Capital Co., Ltd.
- (3) (L) – Long Position, (S) – Short Position.

Save as disclosed above, so far as was known to the Directors, as at 30 June 2019, there was no person (not being a Director or a chief executive of the Company) who had or deemed to have an interest or a short position in the Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the shareholders of the Company (the **"Shareholders"**).

During the period under review from 1 January 2019 to 30 June 2019, the Company complied with all the code provisions in the Corporate Governance Code and Corporate Governance Report (the **"CG Code"**) as set out in Appendix 15 to the GEM Listing Rules except for the following:

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the role of the chairman of the Board is performed by Mr. Sun. Mr. Sun has been engaging in Internet business development and financial technology for years. The Board believes that by virtue of the practical experience of Mr. Sun in mobile Internet and financial technology, Mr. Sun is able to provide the Company with strong and consistent leadership, facilitate effective and efficient planning, implementation of business decisions and strategies, and ensure the generation of benefits to the Shareholders.

Although the appointment of the chief executive officer of the Company remains outstanding, the overall management of the Company is performed by Mr. Sun and Mr. Zhao Ke, their respective areas of profession spearheaded the Group's overall development and business strategies.

The Company is still looking for a suitable candidate to fill the vacancy of the chief executive officer in order to comply with the CG Code.



CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in Directors' information since the date of the 2018 annual report of the Company is as follows:

- Mr. Song Ke, an independent non-executive Director, was appointed as the chairman in the China region of Live Nation Entertainment, Inc. (shares of which are listed on the New York Stock Exchange, ticker: LYV) in April 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for securities transactions by Directors (the "**Code**") which is on terms no less exacting than the Required Standard of Dealings. The Company made specific enquiry with all Directors and had not been notified of any non-compliance with the Required Standard of Dealings and the Code by the Directors during the period under review.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30 June 2019 have been reviewed by the audit committee of the Company which is of the opinion that such statements complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements and that adequate disclosures have been made.

COMPETING INTERESTS

During the period under review, none of the Directors or controlling Shareholders or any of their respective close associates (as defined in the GEM Listing Rules) has any interest in a business which causes or may cause any significant competition with the business of the Group.



PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

By order of the Board
China Netcom Technology Holdings Limited
Sun Haitao

Chairman and Executive Director

7 August 2019

As at the date of this report, the executive Directors are Mr. Sun Haitao and Mr. Zhao Ke; and the independent non-executive Directors are Mr. Song Ke, Mr. Wu Bo and Mr. Michael Yu Tat Chi.