



2020 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)





CHARACTERISTICS OF GEM (“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 Main Board of 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*This report, for which the directors (the “**Directors**”) of China Netcom Technology Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (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 report 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 report misleading.*

This report will remain on the “Latest Listed Company Information” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.irasia.com/listco/hk/chinanetcom.

HIGHLIGHTS

- The unaudited consolidated revenue of the Group for the six months ended 30 June 2020 was approximately HK\$10,180,000 (six months ended 30 June 2019: approximately HK\$41,403,000), representing a decrease of approximately 75% as compared with that for the corresponding period in 2019.
- The Group recorded an unaudited consolidated loss attributable to owners of the Company of approximately HK\$10,865,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: unaudited consolidated profit attributable to owners of the Company of approximately HK\$16,074,000).
- The unaudited basic and diluted loss per share of the Company was approximately HK0.23 cent for the six months ended 30 June 2020 (six months ended 30 June 2019: unaudited basic and diluted earnings per share of approximately HK0.34 cent).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 June 2020 (Unaudited)

	Notes	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
		2020	2019	2020	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2	6,920	23,549	10,180	41,403
Cost of sales and services		(2,357)	(3,813)	(5,015)	(8,892)
Gross profit		4,563	19,736	5,165	32,511
Other income and gains/(losses), net		1,566	(3,384)	(5,725)	(1,346)
Administrative expenses		(5,112)	(3,810)	(8,033)	(7,638)
Finance costs	4	(617)	(789)	(1,293)	(1,489)
Profit/(loss) before tax		400	11,753	(9,886)	22,038
Income tax charge	5	(85)	(4,438)	(117)	(7,224)
Profit/(loss) for the period	6	315	7,315	(10,003)	14,814
Other comprehensive expense					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translating foreign operations		(108)	(2,050)	(1,298)	(545)
Other comprehensive expense for the period		(108)	(2,050)	(1,298)	(545)
Total comprehensive income/ (expense) for the period		207	5,265	(11,301)	14,269

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020	2019	2020	2019
<i>Notes</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit attributable to:				
Owners of the Company	(567)	7,874	(10,865)	16,074
Non-controlling interests	882	(559)	862	(1,260)
	315	7,315	(10,003)	14,814
Total comprehensive (expense)/ income attributable to:				
Owners of the Company	(659)	5,825	(12,173)	15,491
Non-controlling interests	866	(560)	872	(1,222)
	207	5,265	(11,301)	14,269
(Loss)/earnings per share				
Basic and diluted				
<i>(HK cents per share)</i>	(0.01)	0.16	(0.23)	0.34

7

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (Unaudited)

		(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	2,730	6,395
Right-of-use assets		8,917	21,476
Financial asset at fair value through other comprehensive income		360	360
Deferred tax assets		3,535	–
		15,542	28,231
Current assets			
Inventories		86	–
Quality assurance fund receivables		155	4,710
Contract assets		1,972	11,751
Trade and other receivables	9	2,456	2,501
Amounts due from non-controlling shareholders of subsidiaries		6,755	6,858
Amount due from a fellow subsidiary		5	445
Financial assets at fair value through profit or loss		4,708	–
Tax recoverable		33	12
Restricted cash		–	1,545
Cash and bank balances		65,723	75,791
		81,893	103,613

		(Unaudited)	(Audited)
		30 June	31 December
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
Current liabilities			
Quality assurance fund payables		14,908	20,825
Trade and other payables	10	7,526	9,400
Contract liabilities		440	126
Receipts in advance		128	1,285
Lease liabilities		3,724	7,923
Amount due to an intermediate holding company		2,000	1,514
Amount due to a non-controlling shareholder of a subsidiary		237	241
Convertible bonds		16,043	15,286
Current tax liabilities		1,929	5,726
		46,935	62,326
Net current assets		34,958	41,287
Total assets less current liabilities		50,500	69,518
Non-current liabilities			
Lease liabilities		7,880	16,694
Deferred tax liabilities		2,373	2,489
		10,253	19,183
Net assets		40,247	50,335



	(Unaudited) 30 June 2020 HK\$'000	(Audited) 31 December 2019 <i>HK\$'000</i>
Capital and reserves		
Share capital	23,355	23,355
Reserves	16,354	27,861
Equity attributable to owners of the Company	39,709	51,216
Non-controlling interests	538	(881)
Total equity	40,247	50,335

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 2020 (Unaudited)

	Attributable to owners of the Company											
	Share capital-ordinary shares (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital contribution reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible bonds equity reserve (Unaudited) HK\$'000	Financial asset at fair value through other comprehensive income reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Subtotal (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) 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

	Attributable to owners of the Company												
	Share capital-ordinary shares (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Capital contribution reserve (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Convertible bonds equity reserve (Unaudited) HK\$'000	Warrant reserve (Unaudited) HK\$'000	Financial asset at fair value through other comprehensive income reserve (Unaudited) HK\$'000	Foreign currency translation reserve (Unaudited) HK\$'000	Other reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Subtotal (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 January 2020	23,355	3,443,597	9,777	1	3,935	-	245	113,725	(49)	(3,543,370)	51,216	(881)	50,335
(Loss)/profit for the period	-	-	-	-	-	-	-	-	-	(10,865)	(10,865)	862	(10,003)
Other comprehensive (expense)/income for the period	-	-	-	-	-	-	-	(1,308)	-	-	(1,308)	10	(1,298)
Total comprehensive (expense)/income for the period	-	-	-	-	-	-	-	(1,308)	-	(10,865)	(12,173)	872	(11,301)
Issue of unlisted warrants net of expense	-	-	-	-	-	666	-	-	-	-	666	-	666
Capital contribution by non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	547	547
Balance at 30 June 2020	23,355	3,443,597	9,777	1	3,935	666	245	112,417	(49)	(3,554,235)	39,709	538	40,247

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 2020 (Unaudited)

	(Unaudited)	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(3,932)	16,549
Net cash (used in)/generated from investing activities	(3,775)	22,559
Net cash used in financing activities	(1,115)	(3,392)
Net (decrease)/increase in cash and cash equivalents	(8,822)	35,716
Cash and cash equivalents at the beginning of period	75,791	18,369
Effect of foreign exchange rate changes, net	(1,246)	(686)
Cash and cash equivalents at the end of period	65,723	53,399
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	65,723	53,399

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 of the Group for the six months ended 30 June 2020 have been prepared in accordance with the Hong Kong Accounting Standards (“**HKASs**”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure required by the GEM Listing Rules. It was authorised for issue on 7 August 2020.

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“**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 2020. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies and amounts reported for the current and prior periods.

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 2019.

2 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	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue from contracts with customers				
Provision of smart retail solutions	5,303	–	6,867	–
Credit referral and service fee	61	20,308	74	35,069
Sale of smart wearable devices	–	2	–	25
Provision of management, marketing and operating services for lottery system and lottery halls	127	185	161	330
Provision of sports training services	465	593	756	1,147
Revenue from other sources				
Apartment leasing	964	2,461	2,322	4,832
	6,920	23,549	10,180	41,403

3 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.

During the year ended 31 December 2019, the Group ceased the operation of smart wearable device business. In the first quarter of 2020, the Group commenced the operation of smart retail business.

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

- smart retail business – provision of comprehensive smart retail solutions services on omni-channel payment business processing system, member-precise marketing system as well as the development of enterprise resource planning system to online and offline chain enterprises and micro and small merchants;
- financial technology services business – provision of credit referral and services (including credit facilitation services, post-origination services and financial guarantee services);

- (c) apartment leasing business – management of apartment leasing for property owners and lessees;
- (d) smart wearable device business – research, development and sale of smart wearable devices;
- (e) 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
- (f) sports training business – provision of sports training services.

The following tables present the revenue and results for the six months ended 30 June 2020 and the six months ended 30 June 2019, and the total assets and total liabilities as at 30 June 2020 and 31 December 2019 for each of the Group’s business segments:

	Smart retail business <i>HK\$'000</i>	Financial technology services business <i>HK\$'000</i>	Apartment leasing 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 2020 (Unaudited)						
Segment revenue	6,867	74	2,322	161	756	10,180
Segment profit/(loss)	6,464	(9,556)	(3,325)	(1,064)	(260)	(7,741)
Interest on bank deposits, other income and gains, net						1,111
Central administration costs						(3,256)
Loss before tax						(9,886)



	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	35,069	4,832	25	330	1,147	41,403
Segment profit/(loss)	30,067	(2,669)	(915)	(1,144)	(68)	25,271
Interest on bank deposits, other income and gains, net						428
Central administration costs						(3,661)
Profit before tax						22,038

	Smart retail business <i>HK\$'000</i>	Financial technology services business <i>HK\$'000</i>	Apartment leasing 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 2020 (Unaudited)						
Segment assets	7,971	62,415	13,898	2,413	3,585	90,282
Corporate and unallocated assets						7,153
Consolidated assets						97,435
Segment liabilities	2,621	16,942	9,785	21,522	1,366	52,236
Corporate and unallocated liabilities						4,952
Consolidated liabilities						57,188

	Financial technology services business <i>HK\$'000</i>	Apartment leasing 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 2019 (Audited)					
Segment assets	83,303	30,853	2,861	4,154	121,171
Corporate and unallocated assets					<u>10,673</u>
Consolidated assets					<u>131,844</u>
Segment liabilities	29,659	23,531	21,044	1,724	75,958
Corporate and unallocated liabilities					<u>5,551</u>
Consolidated liabilities					<u>81,509</u>

4 FINANCE COSTS

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Effective interest on convertible bonds	379	379	757	753
Interest on lease liabilities	238	410	536	736
	<u>617</u>	<u>789</u>	<u>1,293</u>	<u>1,489</u>

5 INCOME TAX CHARGE

Income tax recognised in profit or loss

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
PRC Corporate Income Tax				
Current tax	(3,699)	(4,501)	(3,793)	(7,348)
Deferred tax	3,614	63	3,676	124
Total income tax charge recognised in profit or loss	(85)	(4,438)	(117)	(7,224)

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 Corporate 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 2020 and 31 December 2019.

6 PROFIT/(LOSS) FOR THE PERIOD

	(Unaudited)		(Unaudited)	
	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) for the period has been arrived at after (crediting)/charging:				
Bank interest income	(468)	(97)	(962)	(150)
Net foreign exchange gain	(35)	(233)	(145)	(113)
Interest income on financial assets at fair value through profit or loss	(5)	(35)	(5)	(165)
Quality assurance fund recovered	(12)	(71)	(14)	(187)
Quality assurance fund loss/(gain), net (Reversal of)/provision for impairment of contract assets	2,722	3,098	8,244	(1,275)
Gain on lease termination	(1,673)	592	807	3,342
	(1,872)	-	(1,919)	-
Auditor's remuneration	240	256	480	506
Employee benefits expenses (excluding directors' emoluments)				
– Salaries, bonus and other benefits in kind	1,513	2,020	3,074	4,593
– Contributions to retirement benefits schemes	116	337	291	602
Directors' emoluments	336	301	672	603
Short-term leases expenses	41	100	70	217
Low-value leases expenses	-	3	-	6
Depreciation of property, plant and equipment	260	999	1,015	1,706
Depreciation of right-of-use assets	1,484	2,155	3,364	4,449
Loss on disposal of property, plant and equipment	2,557	-	2,557	-

7 (LOSS)/EARNINGS PER SHARE

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

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/earnings				
(Loss)/earnings for the period attributable to owners of the Company for the purposes of basic and diluted (loss)/earnings per share	(567)	7,874	(10,865)	16,074

Number of shares

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020	2019	2020	2019
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	4,671,035	4,671,035	4,671,035	4,671,035

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

8 PROPERTY, PLANT AND EQUIPMENT

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Net book value, beginning of the period/year	6,395	9,964
Additions	-	27
Disposals/write-off	(2,560)	(385)
Impairment loss	-	(231)
Depreciation	(1,015)	(2,828)
Effect of foreign currency exchange differences	(90)	(152)
Net book value, end of the period/year	2,730	6,395
Cost	8,429	12,880
Accumulated depreciation and impairment	(5,699)	(6,485)
Net book value, end of the period/year	2,730	6,395

9 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 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0 – 30 days	79	44
31 – 60 days	-	53
61 – 90 days	-	42
Trade receivables, net of loss allowance	79	139
Deposits, other receivables and prepayments	2,377	2,362
Total trade and other receivables	2,456	2,501

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

10 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 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0 – 30 days	72	27
31 – 60 days	–	35
61 – 90 days	–	1,615
Over 90 days	1,753	960
Total trade payables	1,825	2,637
Other payables and accruals	5,430	5,963
Accrued salaries and other benefits in kind	271	800
Total trade and other payables	7,526	9,400

11 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 periods were as follows:

	(Unaudited) Three months ended 30 June		(Unaudited) Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000	2020 HK\$'000	2019 HK\$'000
Short-term benefits	327	292	654	585
Post-employment benefits	9	9	18	18
	336	301	672	603

12 EVENTS AFTER THE REPORTING PERIOD

Conversion of convertible bonds

On 13 July 2020, the Company received a conversion notice from Mr. Leung Ngai Man (“**Mr. Leung**”) (a former substantial shareholder, and former chairman of the Company and executive Director) to exercise the conversion rights attached to the outstanding convertible bonds in the principal amount of HK\$18,016,000. 15,013,333 ordinary shares of the Company (the “**Shares**”), representing approximately 0.321% of the issued Shares as at 13 July 2020 and approximately 0.320% of the enlarged issued Shares immediately after the conversion, were allotted and issued to Mr. Leung on 17 July 2020 at the conversion price of HK\$1.20 per Share. The Company did not have any outstanding convertible bonds after the exercise of the above conversion rights attached to the convertible bonds.

Outbreak of Novel Coronavirus

The wide spread of the Novel Coronavirus in the PRC since the beginning of 2020 is a turbulent and challenging situation facing by all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and minimize the impact. The Group will continue to pay attention on the change of situation and make timely response and adjustments in the future.

13 INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Smart Retail Business

The Group's smart retail business is operated under its subsidiary, Hangzhou Zhongtuo Netcom Technology Limited ("**Zhongtuo Netcom**"), which positions itself as an integrated smart retail solution provider. Its main business is to provide software and hardware development service, omni-channel payment service and other cloud solutions to chain enterprises and merchants. In addition to receiving a fixed fee from system development and sales of hardware, the Group also receives transaction income that is based on customers' volume of usage. For the period from 27 February 2020 (date of incorporation of Zhongtuo Netcom) to 30 June 2020, the smart retail business of the Group recorded a revenue of approximately HK\$6,867,000 and a profit of approximately HK\$6,464,000.

Financial Technology Services Business

Since late 2019, the PRC government has issued a series of regulatory documents and guidances, specifying that the exiting and transformation of all P2P businesses in the PRC would be the general principle. In the first half of 2020, the Group had already ceased its business cooperation with P2P organizations and began to plan for the transformation of its financial technology services business by trying to form business cooperation with commercial banks and other financial institutions. However, due to the impact of the Novel Coronavirus epidemic in early 2020, the trend of increasing delinquency rate in the personal consumption credit market was still prominent in the first half of 2020, and various financial institutions remain cautious in cooperating with Internet financial technology companies. Therefore, although the Group has carried out business negotiations with several financial institutions, no consensus on cooperation has been reached with any of them as at the date of this report. As the regulatory requirement in the PRC for financial institutions and Internet financial technology companies is becoming increasingly stringent (e.g. the China Banking and Insurance Regulatory Commission promulgated the Interim Measures for the Administration of Internet Loans issued by Commercial Banks (《商業銀行互聯網貸款管理暫行辦法》) in July 2020, etc.), the Group expects that the prospect of its financial technology services business will remain unfavorable in the second half of 2020. For the six months ended 30 June 2020, the financial technology services business of the Group recorded a revenue of approximately HK\$74,000 (six months ended 30 June 2019: approximately HK\$35,069,000) and a loss of approximately HK\$9,556,000 (six months ended 30 June 2019: profit of approximately HK\$30,067,000).

Apartment Leasing Business

Due to the continuous impact of the Novel Coronavirus epidemic, the Group's apartment leasing business has been facing an increasingly difficult operating environment. As the number of tenants in Wuhan's leasing market continued to decline, the Group had negotiated with the landlords to cancel the lease for 140 apartments (covering 450 rooms) during the second quarter of 2020. As at 30 June 2020, the Group had secured the agency rights of 87 apartments (with 322 rooms in total) and successfully procured the leasing of 155 rooms thereof. The Group expects that the sourcing of tenants will remain difficult in the second half of 2020. For the six months ended 30 June 2020, the apartment leasing business of the Group recorded a revenue of approximately HK\$2,322,000 (six months ended 30 June 2019: approximately HK\$4,832,000) and a loss of approximately HK\$3,325,000 (six months ended 30 June 2019: loss of approximately HK\$2,669,000). If this business continues to be loss-making, the Group may consider to cease the operation in the future.

Lottery Business

As at 30 June 2020, the Group had submitted applications for the establishment of 1,629 sales points in various cities in Shandong, 1,011 of which have been approved and 395 were in operation. For the six months ended 30 June 2020, the Group's lottery business generated revenue of approximately HK\$161,000 (six months ended 30 June 2019: approximately HK\$330,000) and recorded a loss of approximately HK\$1,064,000 (six months ended 30 June 2019: loss of approximately HK\$1,144,000). The Group is closely monitoring the performance of the lottery business and is downsizing this business, as it continues to record an operating loss.

Sports Training Business

The Group operates Hui So Hung Table Tennis Training Centre in Hong Kong to provide table tennis training services to students with different ages and levels. The outbreak of the Novel Coronavirus in early 2020 had directly affected the Group's sports training business operation during the first half of the year. For the six months ended 30 June 2020, the Group's sports training business generated a revenue of approximately HK\$756,000 (six months ended 30 June 2019: approximately HK\$1,147,000) and recorded a loss of approximately HK\$260,000 (six months ended 30 June 2019: loss of approximately HK\$68,000).



Financial Review

For the six months ended 30 June 2020, the Group recorded an unaudited consolidated revenue of approximately HK\$10,180,000 (six months ended 30 June 2019: approximately HK\$41,403,000), representing a decrease of approximately 75% as compared with that of the corresponding period in 2019. The revenue of the Group was derived from its (i) smart retail business; (ii) financial technology services business; (iii) apartment leasing business; (iv) lottery business; and (v) sports training business.

For the six months ended 30 June 2020, the unaudited consolidated loss attributable to owners of the Company was approximately HK\$10,865,000 (six months ended 30 June 2019: unaudited consolidated profit attributable to owners of the Company of approximately HK\$16,074,000). The Group's loss for the six months ended 30 June 2020 was mainly attributable to the loss arising from the Group's financial technology services business and apartment leasing business.

Liquidity and gearing ratio

As at 30 June 2020, the Group recorded total assets of approximately HK\$97,435,000 (31 December 2019: approximately HK\$131,844,000), total liabilities of approximately HK\$57,188,000 (31 December 2019: approximately HK\$81,509,000) and cash and bank balances (excluding pledged bank deposit) of approximately HK\$65,723,000 (31 December 2019: approximately HK\$75,791,000).

As at 30 June 2020, the gearing ratio of the Group was approximately 40% (31 December 2019: approximately 30%), based on the total borrowings of approximately HK\$16,043,000 (31 December 2019: approximately HK\$15,286,000) and the total equity of approximately HK\$40,247,000 (31 December 2019: approximately HK\$50,335,000). The total borrowings solely represent the Company's outstanding convertible bonds as at 30 June 2020. After the exercise of the conversion rights attached to the said outstanding convertible bonds on 17 July 2020 (details of which are set out in the section headed "EVENTS AFTER THE REPORTING PERIOD" below), the gearing ratio of the Group has dropped to zero.

Capital structure

During the six months ended 30 June 2020, the capital structure of the Group mainly consisted of convertible bonds and equity attributable to equity shareholders of the Group comprising of issued share capital and reserves. The convertible bonds carried zero coupon and were fully exercised on 17 July 2020 (details of which are set out in the section headed "EVENTS AFTER THE REPORTING PERIOD" below). As at 30 June 2020, the Company's total number of issued Shares of HK\$0.005 each was 4,671,035,048 (31 December 2019: 4,671,035,048 Shares).

Charges on the Group's assets

As at 30 June 2020, the Group did not have any charges on its assets (31 December 2019: Nil).

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

During the six months ended 30 June 2020, the Group did not hold any material investment nor make 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 2020, the Group did not make any payment (six months ended 30 June 2019: approximately HK\$110,000) for the purchase of property, plant and equipment and had no specific plan for material investment or acquisition of capital assets.

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 an 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 2020 (six months ended 30 June 2019: Nil).



Contingent liabilities

As at 30 June 2020, the Group had no significant contingent liabilities (31 December 2019: Nil).

Segmental information

Please refer to note 3 to the financial statements for the segmental information of the Group.

Prospects

The Novel Coronavirus remains active globally and its impact on the Group's businesses is profound, especially for the Group's apartment leasing business located in Wuhan city. As for the financial technology services business, under the tight supervision of the PRC government on the online lending industry, the Group will continue to undertake a transformation phase for this business. The Group expects that its future business growth will focus on the smart retail business launched early this year. At the same time, the Group may downsize or cease certain continuously loss-making business(es) in order to focus its resources on the profit-making businesses.

Employee information

As at 30 June 2020, the Group had a total of 28 employees (31 December 2019: 38).

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 2020, 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 杭州恩牛網絡技術有限公司 (transliterated as 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. (“51 Credit Card”) (listed on the Stock Exchange, stock code: 2051), and ultimately controlled by Mr. Sun) (details of which are set out in the section headed “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	Founder of a discretionary trust who can influence how the trustee exercises his discretion ⁽¹⁾	120,076,000	10.08%
		Others ⁽¹⁾	50,355,000	4.23%
		Others ⁽¹⁾	<u>245,140,736</u>	<u>20.57%</u>
			415,571,736	34.87%

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; (ii) acts as a general partner and controls 51 Xihu L.P., which in turn holds 50,355,000 shares in 51 Credit Card; and (iii) holds 245,140,736 shares in 51 Credit Card through various voting proxies.

Save as disclosed above, as at 30 June 2020, 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 2020, 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 ⁽⁴⁾	Approximate percentage of issued Shares
51 Credit Card ⁽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%
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%



Name	Capacity and nature of interests	Number of Shares directly or indirectly held and category ⁽⁴⁾	Approximate percentage of issued Shares
Tiantu Investments International Limited ⁽²⁾	Beneficial owner	365,000,000 (L)	7.81%
Mr. Ye Cunshi (" Mr. Ye ") ⁽³⁾	Interest in controlled corporation	700,655,257 (L)	15.00%
Yun Ma Limited ⁽³⁾	Beneficial owner	700,655,257 (L)	15.00%

* *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 headed "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) 700,655,257 unlisted warrants (the "**Warrant(s)**") were issued to Yun Ma Limited (a company controlled as to approximately 62.40% by Mr. Ye) at the issue price of HK\$0.001 per Warrant as performance incentive. Upon the exercise of the subscription rights attaching to the Warrants, 700,655,257 Shares will be allotted and issued. Details of which are set out in the section headed "UNLISTED WARRANTS" below.
- (4) (L) – Long Position, (S) – Short Position.

Save as disclosed above, so far as was known to the Directors, as at 30 June 2020, 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 (the **"Shareholders"**) of the Company.

For the six months ended 30 June 2020, the Company had applied and complied with all the code provisions in the Corporate Governance Code (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 have 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 of the Company in order to comply with the CG Code.

EVENTS AFTER THE REPORTING PERIOD

For details of events the Group which have occurred since the end of the six months ended 30 June 2020, please refer to note 12 to the financial statements.



UNLISTED WARRANTS

On 22 November 2019, Zhong Tuo Limited (“**Zhong Tuo**”) (a wholly owned subsidiary of the Company) entered into the joint venture agreement (the “**JV Agreement**”) with 寧波雲霓企業管理合夥企業(有限合夥) (transliterated as Ningbo Yunni Enterprise Management Partnership (Limited Partnership)), 寧波雲碼企業管理合夥企業(有限合夥) (transliterated as Ningbo Yun Ma Enterprise Management Partnership (Limited Partnership)) and Mr. Ye, pursuant to which the parties agreed to jointly establish a joint venture to explore the business development, cooperation and investment opportunities in the area of smart retail business, and Zhong Tuo conditionally agreed to procure the Company to issue 700,655,257 Warrants to Yun Ma Limited (a company controlled as to approximately 62.40% by Mr. Ye) at the issue price of HK\$0.001 per Warrant as performance incentive. Each Warrant carries the right to subscribe at any time during the subscription period for one warrant Share (“**Warrant Share**”) at the subscription price of HK\$0.054 (subject to adjustment) per Warrant Share. The closing price per Share as quoted in the Stock Exchange on the date of the JV Agreement was HK\$0.034. The approval of the issue of Warrants and the grant of specific mandate to issue Warrant Shares upon the exercise of the subscription rights attaching to the Warrants was obtained at the extraordinary general meeting of the Company held on 13 December 2019.

On 23 January 2020, Zhong Tuo and Zhong Tuo Holdings (HK) Limited (a wholly owned subsidiary of Zhong Tuo) further entered into the supplemental joint venture agreement with Ningbo Yunni Enterprise Management Partnership (Limited Partnership) and Ningbo Yun Ma Enterprise Management Partnership (Limited Partnership), pursuant to which all rights and obligations of Zhong Tuo under the JV Agreement would be transferred to Zhong Tuo Holdings (HK) Limited. The said joint venture (Zhongtuo Netcom) was incorporated in February 2020.

700,655,257 Warrants were issued in February 2020 by the Company to Yun Ma Limited at the issue price of HK\$0.001 per Warrant, carrying the right to subscribe for up to a maximum of 700,655,257 Warrant Shares during a 36-month period commencing from the date of vesting of the Warrants. After the exercise of the subscription rights attaching to the Warrants, the Warrant Shares will be allotted and issued under the specific mandate.

Assuming the full exercise of the subscription rights attaching to the Warrants, it is expected that the gross and net proceeds of approximately HK\$39 million and HK\$38 million will be raised, respectively. The net proceeds will be used for the general working capital of the Group, i.e. the net proceeds from (i) issue of the Warrants of approximately HK\$666,000 (adjusted) will be applied for remuneration of Directors and employees of the Group; and (ii) the full exercise of the subscription rights attaching to the Warrants of approximately HK\$37,617,000 will be applied as to 50% for remuneration of Directors and employees of the Group, 20% for rental expenses, 20% for legal and professional fees and 10% for other administrative and operating expenses. The net issue price, after deduction of the relevant expenses, is approximately HK\$0.0009 (adjusted, previously HK\$0.0008).

After the issue of 700,655,257 Warrants in February 2020, the Group received the net proceeds from the issue of the Warrants of approximately HK\$666,000. As as the date of this report, all such proceeds were applied for remuneration of Directors and employees of the Group.

As at the date of this report, none of the said subscription rights attached to the Warrants have been exercised, and the Group has no intention to deviate from the proposed use of proceeds as previously disclosed by the Company.

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 against which issuers and their directors must measure their conduct regarding transactions in securities of their issuers. 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 any of the Directors during the period under review.

AUDIT COMMITTEE

The Group's interim results for the six months ended 30 June 2020 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 purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

By order of the Board
China Netcom Technology Holdings Limited
Sun Haitao
Chairman and Executive Director

7 August 2020

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.