



中国优通控股
China UT Holding

China U-Ton Holdings Limited 中國優通控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6168

INTERIM REPORT 2019

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Jiang Changqing (姜長青) (Chairman)

Zhao Feng (趙峰)

Ji Huifang (計惠芳)

Liu Jianzhou (劉建洲)

Chen Qizheng (陳齊爭)

Non-Executive Director

Ge Lingyue (葛凌躍)

Independent Non-Executive Directors

Meng Fanlin (孟繁林)

Wang Haiyu (王海玉)

Li Xiaohui (李曉慧)

Company Secretary

Chan Oi Chong (陳愛莊) (ICS, HKICS)

Audit Committee

Li Xiaohui (李曉慧) (Chairlady)

Meng Fanlin (孟繁林)

Wang Haiyu (王海玉)

Nomination Committee

Meng Fanlin (孟繁林) (Chairman)

Li Xiaohui (李曉慧)

Wang Haiyu (王海玉)

Remuneration Committee

Wang Haiyu (王海玉) (Chairman)

Meng Fanlin (孟繁林)

Li Xiaohui (李曉慧)

Company's Website

www.chinauton.com.hk

Auditor

ZHONGHUI ANDA CPA Limited

Legal Adviser to the Company (Hong Kong Law)

Chungs Lawyers

Registered Office

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Grand Cayman KY1-1108

Cayman Islands

Head Office, Headquarters and Principal Place of Business in the PRC

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Yuhua District, Shijiazhuang

Hebei Province

China

Principal Place of Business in Hong Kong

Room 2404

24/F, Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

Principal Bankers

Bank of China (Hong Kong) Limited
1 Garden Road,
Hong Kong

China Construction Bank
Shijiazhuang Guangan Dajie Branch
No.26, Guangan Dajie, Shijiazhuang
Hebei Province
China

Industrial and Commercial Bank of China
Beijing Beitaipingzhuang Branch
No.33, North Road, Beitaipingzhuang
Beijing
China

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
54th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

6168

HIGHLIGHTS

- China U-Ton Holdings Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) reported a loss attributable to the equity holders of the Company of RMB93,512,000 for the six months ended 30 June 2019 (2018: loss of RMB66,808,000).
- The Group’s revenue from continuing operations was approximately RMB52,822,000 for the six months ended 30 June 2019 (2018: RMB63,885,000), representing a decrease of RMB11,063,000 as compared with the corresponding period of the previous financial year.
- Loss per share for the six months ended 30 June 2019 was RMB4.5 cents (2018: RMB3.3 cents).
- The board (the “**Board**”) of directors (the “**Directors**”) of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: Nil).

	Six months ended 30 June		Increase (Decrease) %
	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	
Continuing operations			
Revenue	52,822	63,885	(17.3)
Gross profit	15,064	14,341	5.0
EBITDA	(54,477)	(32,632)	66.9
EBITDA margin %	(103.1%)	(51.1%)	(52.0%)
Net loss	(88,907)	(67,014)	32.7
Loss for the period attributable to the equity holders of the Company	(93,512)	(66,808)	40.0
Net loss margin	(177.0%)	(104.6%)	(72.4%)
Continuing and discontinued operations	RMB cents	RMB cents	RMB cents
Basic loss per share	(4.5)	(3.3)	1.2
		As at 30 June 2019 (unaudited)	As at 31 December 2018 (audited)
Current ratio		0.9	1.1
Gearing ratio		240.7%	137.0%

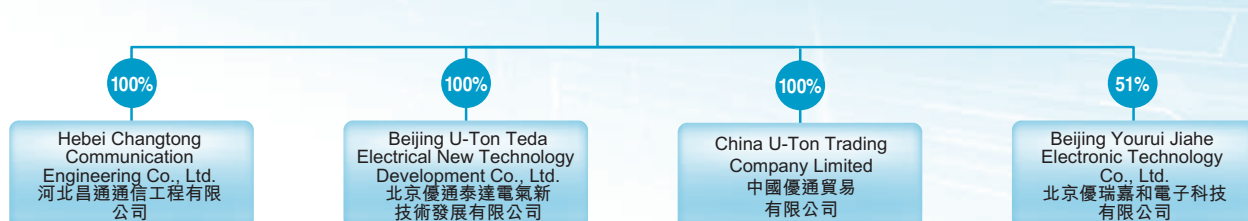
GROUP STRUCTURE OF MAJOR OPERATING SUBSIDIARIES



中国优通控股
China UT Holding

China U-Ton Holdings Limited
中國優通控股有限公司

(Stock Code: 6168.HK)



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Company reported its unaudited results for the six months ended 30 June 2019 with a loss attributable to the equity holders of the Company of RMB93,512,000, representing an increase of loss of RMB26,704,000 from loss of RMB66,808,000 for the six months ended 30 June 2018. The Group's revenue from continuing operations for the six months ended 30 June 2019 decreased by approximately 17.3% to RMB52,822,000. During the six months ended 30 June 2019, due to increased competition in traditional optical fiber deployment business, the Group adjusted its allocation of resources by taking the initiative to reduce the amount of business undertaken and foster new potential business growth drivers. The strategy adjustment leads to a decrease in revenue of design, deployment and maintenance services of optical fibers. The Group recorded a substantial loss attributable to the equity holders of the Company due to the following reasons, 1) fall in revenue as a result of strategy adjustment, 2) recognition of a non cash share-based payments costs of RMB20,205,000 lead to a significant increase in administrative expenses.

BUSINESS REVIEW

The Group is principally engaged in the provision of design, deployment and maintenance services of optical fibers, the provision of other communication networks services, the provision of environmentally intelligent technical products and services and money lending services.

Our competitive strengths on deployment optical fibers include (1) we provide flexible solutions to our clients with our microducts and mini-cable system integration methods; and (2) we have registered a number of patents and obtained the rights to use the drainage system in various cities/districts to enhance our business development in telecommunication industry in the PRC. Based on the experience of the Group and the results of detailed analysis, it has been shown that laying optical fiber cables through combining the use of drainage system and mini-cable and micro-ducts technology is a technology that can construct networks with the most extensive coverage in a shorter time and at a lower cost, and it is expected that no alternative technology with a lower cost will be available in the foreseeable future.

In order to diversify and strengthen our revenue streams, the Group made strategic investments in other new business to maximise returns to the Company's shareholders. In February 2018, the Group completed the acquisition of 51% of equity interest in Beijing Yourui Jiahe Electronic Technology Co., Ltd. ("Yourui", 北京優瑞嘉和電子科技有限公司). Yourui is principally engaged in the provision of environmentally intelligent technical products and services in the PRC. The Directors are of the view that the acquisition of Yourui and the collaboration between Yourui and the Company will provide opportunities to the Company to diversify its existing business and broaden its revenue stream.

Deployment and maintenance services of optical fibers

During the six months ended 30 June 2019, a decrease in revenue of deployment services of optical fibers was mainly due to a significant decrease in deployment construction revenue in Hebei Province due to keen competition of the market.

Environmentally intelligent technical products and services

Provision of environmentally intelligent technical products and services is a new segment as a result of the acquisition of Yourui. Yourui positions itself as a high-tech company which provides clients with environmental protection related services and solutions based on big data analysis. The main business scope of Yourui covers environmental surveillance and data analysis, environmental early warning and emergency command system construction, environmental management projects as well as security video surveillance and related products.

Other communication network services

Except for optical fibers related services, the group also provides other integrated services relating to design, construction and maintenance of communication networks.

Money lending

The money lending segment principally earns interest income from loans to third parties. The Group has obtained a money lenders license in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong).

Low-voltage equipment integration

The business of low-voltage equipment integration services was disposed in December 2018.

FUTURE PLANS AND PROSPECTS

Looking forward, the Group expects the operating environment will continue to be challenging. However, the application of wireless technology by the market and the promotion of cloud computing, big data and data centres, together with upgrades in systems and skills and application of 4G and development of 5G, is expected to lead to a multi-fold increase in the global demand for bandwidth in the next few years. Optical fiber broadband network construction is the forerunner of all infrastructure, and the most important ring for the economic development of countries in the surrounding areas under the One Belt One Road initiative. Upgrade of existing networks and laying of new networks are required to cope with the local needs for future development. The Group is proactively looking for business opportunities to expand its existing business in the PRC and overseas. In order to cope with the anticipated challenges and staying competitive, more efforts will be made to strengthen internal control and management, strictly control production costs and operating expenses. The Group will also continue to explore any opportunities to diversify our business with the ultimate aim of bringing greater value to our shareholders in the long run.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue from continuing operations for the six months ended 30 June 2019 was RMB52,822,000, representing a decrease of approximately 17.3% over the corresponding period of the previous financial year. The decrease in the Group's revenue from continuing operations was mainly due to decrease of construction contract revenue of deployment services of optical fibers.

The following table sets out the breakdown of our Group's revenue during the period:

	Six months ended 30 June		Increase
	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	(Decrease) %
Continuing operations			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	10,687	29,081	(63.3)
– Micro-ducts and mini-cables system integration methods	10,605	12,955	(18.1)
Sub-total	21,292	42,036	(49.3)
Other communication networks services	4,018	3,501	14.8
Provision of environmentally intelligent technical products and services	17,478	7,842	122.9
Money lending	9,761	10,506	(7.1)
Rental income	273	–	100.0
Total	52,822	63,885	(17.3)
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	–	37,562	(100.0)
Total	52,822	101,447	(47.9)

MANAGEMENT DISCUSSION AND ANALYSIS

Design, deployment and maintenance of optical fibers

Revenue generated from our provision of design, deployment and maintenance of optical fibers services, was RMB21,292,000, representing approximately 40.3% of the total revenue from continuing operations of the Group for the six months ended 30 June 2019. The decrease in construction revenue for the six months ended 30 June 2019 as compared to 2018 was mainly due to the decrease in the revenue derived from the provision of deployment services of optical fibers in Hebei Province due to keen competition.

The following table set forth our revenue from construction contract by major locations for the period indicated.

	Six months ended 30 June			
	2019		2018	
	RMB' 000	%	RMB' 000	%
Tianjin	9,207	43.3	5,294	12.6
Hunan Province	6,498	30.5	7,465	17.8
Liaoning Province	5,259	24.7	1,627	3.9
Hebei Province	328	1.5	15,450	36.8
Yunnan Province	–	–	5,066	12.1
Shanxi Province	–	–	4,751	11.3
Henan Province	–	–	1,280	3.0
Shandong Province	–	–	897	2.1
Guizhou Province	–	–	138	0.3
Others	–	–	68	0.1
	21,292	100.0	42,036	100.0

Environmentally intelligent technical products and services

Revenue from the provision of environmentally intelligent technical products and services was RMB17,478,000, representing approximately 33.1% of the total revenue from continuing operations of the Group for the six months ended 30 June 2019.

Money lending

The Group recorded money lending interest income of approximately RMB9,761,000 for the six months ended 30 June 2019, representing approximately 18.5% of the total revenue from continuing operations of the Group for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and services

The Group's cost of sales and services from continuing operations for the six months ended 30 June 2019 was approximately RMB37,758,000, representing a decrease of approximately 23.8% over the corresponding period of the previous year. The decrease in the Group's cost of sales was due to decrease of construction costs for deployment services of optical fibers and cost control.

Gross profit/(loss)

The following table sets forth the gross profit/(loss) of each of our services for the period indicated:

	Six months ended 30 June			
	2019		2018	
	RMB' 000 (unaudited)	%	RMB' 000 (unaudited)	%
Gross profit/(loss) by services				
Continuing Operations				
Revenue from the provision of design, deployment and maintenance of optical fibers services				
– Traditional deployment methods	(12,136)	(80.6)	208	1.5
– Micro-ducts and mini-cables system integration methods	2,599	17.3	1,244	8.7
Sub-total	(9,537)	(63.3)	1,452	10.2
Other communication networks services	397	2.6	308	2.1
Provision of environmentally intelligent technical products and services	14,320	95.1	2,816	19.6
Money lending	9,611	63.8	9,765	68.1
Rental income	273	1.8	–	–
	<u>15,064</u>	<u>100.0</u>	<u>14,341</u>	<u>100.0</u>
Discontinued operation				
Revenue from the installation and sales of low-voltage system equipment and related accessories				
	–		4,375	
	<u>15,064</u>		<u>18,716</u>	

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the gross margin of each of our services for the period indicated:

	Six months ended 30 June		Increase/ (Decrease) percent point
	2019 % (unaudited)	2018 % (unaudited)	
Continuing Operations			
Gross margin by services			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	(113.6)	0.7	(114.3)
– Micro-ducts and mini-cables system integration methods	24.5	9.6	14.9
Overall	(44.8)	3.5	(48.3)
Other communication networks services	9.9	8.8	1.1
Revenue from environmentally intelligent technical products and services	81.9	35.9	46.0
Money lending	98.5	93.0	5.5
Rental income	100.0	–	100.0
Overall gross margin	28.5	22.4	6.1
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	–	11.6	(11.6)

There was an increase in overall gross margin from continuing operations for the six months ended 30 June 2019 as compared with the corresponding period of the previous financial year.

The increase in our gross margin was mainly a net effect of the increase in gross profit margin of our new business, provision of environmentally intelligent technical products and services and the decrease in the gross margin of design, deployment and maintenance of optical fibers services during the period. The reason for the gross loss margin of deployment of optical fibers services is due to keen competition.

MANAGEMENT DISCUSSION AND ANALYSIS

Major customers and suppliers

Sales of goods and provision of services to the Group's five largest customers accounted for approximately 71.7% of the total sales of goods and provision of services for the six months ended 30 June 2019. For the six months ended 30 June 2019, revenue from transactions with our largest customer accounted for approximately 34.6% of the Group's total sales of goods and provision of services, which amounted to RMB18,277,000. Purchases from the Group's five largest suppliers accounted for less than 30% in total for six months ended 30 June 2019.

To the best knowledge of the Directors, neither the Directors, their close associates, nor any shareholders who owned more than 5% of the number of the Company's issued shares, had any beneficial interest in any of the Group's five largest customers or suppliers during the period.

Selling expenses and administrative expenses from continuing operations

The Group's selling expenses and administrative expenses for the six months ended 30 June 2019 were RMB72,521,000, representing an increase of RMB35,274,000 from RMB37,247,000 for the corresponding period of the previous year. The increase was mainly due to the recognition of share-based payments of RMB20,205,000.

Impairment losses from continuing operations

Impairment losses represented impairment losses of RMB8,284,000 on other receivables. The impairment losses on other receivables was mainly due to certain counterparties encountered financial difficulties in 2019 and upon management's assessment only a portion of the receivables is expected to be recovered.

Finance cost from continuing operations

Finance cost mainly included interest charged from bank and other borrowings, corporate bonds, convertible bonds and guaranteed notes and net foreign exchange differences on debts. The increase in finance cost was mainly due to increase in interest on bank and other borrowings.

Change in fair value of contingent consideration

Changes in fair value of contingent consideration represented the fair value gain of contingent consideration for acquisition of Yourui.

Loss from continuing operations attributable to equity holders of the Company

The Group recorded net loss from continuing operations attributable to equity holders of the Company of RMB93,512,000 for the six months ended 30 June 2019 compared to net loss of RMB62,087,000 for the corresponding period in 2018, representing an increase of loss approximately 50.6%. The increase in loss attributable to equity holders of the Company was mainly due to (1) fall in revenue as a result of strategy adjustment, (2) recognition of non-cash share-based payments of RMB20,205,000.

Trade and bill receivables

There was a slight increase in trade and bills receivables as at 30 June 2019 of approximately RMB5,215,000 as compared to 30 June 2018.

Contract assets

Contract assets represented the unbilled contract revenue of uncompleted projects and not certified by customers. The decrease in customer assets was mainly due to more construction contracts had obtained final acceptance and unbilled receivables transferred to accounts receivables.

Goodwill

As a result of acquisition of Yourui, the Group recognised goodwill of RMB157,708,000, which represented the fair value in excess of the consideration, non-controlling interest and the net identifiable assets and liabilities of Yourui at the acquisition date.

Equity and financial assets investments at fair value

Equity investments at fair value through other comprehensive income mainly included (1) investment of RMB25,076,000, representing 5.65% of equity interest of Sino Partner, which is principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand “Apollo”, (2) investment of RMB7,500,000 representing 3.75% of equity interest of Jiaxing Jiamiao Equity Investment Partnership (Limited Partnership) and (3) investment of RMB40,000,000, representing subscription of an investment fund. The investment fund mainly focuses on investments in new retail and commercial fields.

MANAGEMENT DISCUSSION AND ANALYSIS

Payables for acquisition of subsidiary

Payables for acquisition of subsidiary represented consideration payable to vendors relating to the acquisition of Yourui. Pursuant to the audited management accounts of Yourui for the year ended 31 December 2018, Yourui has met the performance guarantee. The Group recognised consideration payables to vendors RMB254,416,000, among which RMB27,500,000 is cash consideration and RMB226,916,000 is share consideration. The share consideration will be transferred to the equity when consideration shares are allotted and issued by the Company. For details, please refer to section “Important events after the end of the reporting period” and the Company’s announcements dated 2 July 2019 and 16 August 2019.

Bank and other borrowings

The Group had bank and other borrowings as at 30 June 2019 amounted to RMB62,500,000. No financial instruments were used for hedging purposes. The Group’s bank loans were made in Hong Kong dollars and Renminbi, RMB48,000,000 (31 December 2018: 48,000,000) of bank loans are carried at floating rates, and the remaining bank and other borrowings are carried at fixed rates.

Convertible bonds

On 7 June 2016, 9 February 2017 and 27 June 2017, the Company issued convertible bonds with a nominal value of HK\$50,000,000, USD10,000,000 (equivalent to HK\$78,000,000) and USD4,000,000 (equivalent to HK\$31,200,000), to Chance Talent Management Limited, Donghai Investment Fund Series SPC and Donghai Investment Fund Series SPC, respectively, to raise capital for the Group. The initial conversion price of HK\$1, HK\$1, HK\$1 respectively for the above issuance of convertible bonds represents a premium of approximately 6.4% (to the closing price of HK\$0.94), 16.3% (to the closing price of HK\$0.86) and a premium of 13.6% (to the closing price of HK\$0.880). All the conditions set out in the corresponding subscription agreements have been fulfilled and the subscriptions were completed on 7 June 2016, 9 February 2017, 27 June 2017 respectively in accordance with the terms and conditions of the subscription agreements. These convertible bonds are guaranteed by Mr. Jiang. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding convertible bond instrument: (i) Mr. Jiang ceases to be the chairman of the board (“**Board**”); (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Note 18 and the Company’s announcements dated 16 May 2016, 7 June 2016, 18 January 2017, 10 February 2017, 15 June 2017 and 27 June 2017.

On 24 May 2018 and 11 June 2018, the bondholders converted the convertible bonds with a principal amount of HK\$78 million and HK\$20 million into 78,000,000 shares and 20,725,388 shares of the Company with a conversion price of HK\$1 and HK\$0.965, respectively.

The convertible bonds with a nominal value of US\$4,000,000 (equivalent to HK\$31,200,000) has matured on 27 June 2019. The Company will repay all of the outstanding amount of the convertible bond in accordance with the new repayment schedule. As the conversion rights has already expired, the outstanding amount of convertible bonds was transferred to corporate bonds. For further details, please refer to the paragraph headed “Repayment schedule of convertible bond and guaranteed note” below and the announcements of the Company dated 17 July 2019 and 18 July 2019.

Guaranteed notes

In January 2017 and June 2017, the Company issued guaranteed notes with a nominal value of USD10,000,000 (equivalent to approximately HK\$78,000,000) and USD4,000,000 (equivalent to approximately HK\$31,200,000), respectively. These guaranteed notes are guaranteed by Mr. Jiang. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding note instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Company's announcements dated 18 January 2017, 10 February 2017, 15 June 2017, 27 June 2017 and 17 January 2019. All guaranteed notes have a maturity period of 2 years, with interest bearing at 11% per annum and are repayable semi-annually. The US\$4,000,000 guaranteed note and US\$10,000,000 guaranteed note have matured on 27 June 2019 and 17 July 2019, respectively. The Company will repay all of the outstanding amount of the guaranteed notes in accordance with the new repayment schedule. For further details, please refer to the paragraph headed "Repayment schedule of convertible bond and guaranteed note" below and the announcements of the Company dated 17 July 2019 and 18 July 2019.

Liquidity and financial resources

As at 30 June 2019, the Group had current assets of approximately RMB699,388,000 (31 December 2018: RMB817,667,000) which comprised cash and cash equivalents amounted to approximately RMB19,468,000 (31 December 2018: RMB78,593,000). As at 30 June 2019, the Group had non-current liabilities and current liabilities amounted to approximately RMB166,534,000 and RMB762,725,000 (31 December 2018: RMB195,913,000 and RMB735,873,000), consisting mainly of payables, corporate bonds, guaranteed notes, bank and other borrowings arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 0.9 as at 30 June 2019 (31 December 2018: 1.1).

The Group recorded a net current liability position of approximately RMB63,337,000 as at 30 June 2019 (31 December 2018: net current assets of RMB81,794,000). The Group would settle its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding debts, issuance of shares and bonds and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

Gearing ratio

The gearing ratio of the Group is calculated on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other borrowings, corporated bonds, convertible bonds and guaranteed notes) less cash at bank and on hand and restricted bank deposits. Capital comprises all components of equity. The gearing ratio was approximately 240.7% as at 30 June 2019 (31 December 2018: approximately 137.0%).

MANAGEMENT DISCUSSION AND ANALYSIS

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign exchange exposure

For the six months ended 30 June 2019, we had partial bank balances, corporate bonds and guaranteed notes which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from translation of amount denominated in foreign currencies as at the report date. During the six months ended 30 June 2019, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign exchange risk.

Capital structure

The shares of the Company were listed on Main Board of the Stock Exchange. The capital of the Company mainly comprises ordinary shares and capital reserves.

Capital commitments

No capital commitments was contracted but not provided for in the financial statements as at 30 June 2019 (31 December 2018: Nil).

Dividend

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

Information on employees

As at 30 June 2019, the Group had 257 employees (31 December 2018: 373), including the executive directors. Total staff costs (including directors' emoluments) were approximately RMB10,386,000 for the six months ended 30 June 2019 as compared to approximately RMB14,145,000 for the six months ended 30 June 2018. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonus may be paid with reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund scheme in Hong Kong and various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local PRC authorities as well as share options.

Significant investments held

Except for investment in subsidiaries, trading securities investment and equity and financial assets investments at fair value as at 30 June 2019, the Group did not hold any other significant investment.

Future Plans for Material Investments and Capital Assets

Except as disclosed in the Company's voluntary announcements (1) dated 7 March 2019 that the Group may acquire the shares of Super Hydrogen Energy, which is principally engaged in research and development, production and sales of hydrogen generated using solar water splitting, (2) dated 10 May 2019 that the Group may set up a company with a potential partner to distribute a cancer gene therapy medicine in the Greater China region, the Group did not have any plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

No material acquisitions and disposals of subsidiaries and affiliated companies during the period.

Charges on assets

As at 30 June 2019, the Group had pledged bank deposit with carrying amount of RMB2,300,000 and to secure the bank and other borrowings (31 December 2018: RMB2,290,000).

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2019 (31 December 2018: Nil).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
	Note	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)
Continuing operations			
Revenue	3	52,822	63,885
Cost of sales/services		(37,758)	(49,544)
Gross profit		15,064	14,341
Other income	4	2,198	3,157
Selling expenses		(4,067)	(2,922)
Administrative expenses		(68,454)	(34,325)
Research and development expenses		(1,294)	(4,281)
Impairment losses		(8,284)	(11,505)
Operating loss from continuing operations		(64,837)	(35,535)
Finance costs	5	(31,928)	(26,516)
Changes in fair value of trading securities		3,510	–
Changes in fair value on the derivative components of CB		1,999	–
Changes in fair value of contingent consideration		2,423	–
Loss before taxation from continuing operations	6	(88,833)	(62,051)
Income tax	7	(74)	(242)
Loss for the period from continuing operations		(88,907)	(62,293)
Discontinued operation			
Loss for the period from discontinued operation, net of tax		–	(4,721)
Loss for the period		(88,907)	(67,014)
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements into presentation currency		(1,343)	1,537
Total comprehensive income for the period		(90,250)	(65,477)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the six months ended 30 June	
	Note	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		(93,512)	(62,087)
– Discontinued operation		–	(4,721)
		<u>(93,512)</u>	<u>(66,808)</u>
Non-controlling interests			
– Continuing operations		4,605	(206)
Loss for the period		<u>(88,907)</u>	<u>(67,014)</u>
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		(94,855)	(60,550)
– Discontinued operation		–	(4,721)
		<u>(94,855)</u>	<u>(65,271)</u>
Non-controlling interests			
– Continuing operations		4,605	(206)
Total comprehensive income for the period		<u>(90,250)</u>	<u>(65,477)</u>
Basic and diluted loss per share (RMB cents)			
Continuing and discontinued operations	9	(4.5)	(3.3)
– Continuing operations		(4.5)	(3.1)
– Discontinued operation		–	(0.2)
		<u>(4.5)</u>	<u>(3.3)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2019 RMB' 000 (unaudited)	As at 31 December 2018 RMB' 000 (audited)
Non-current assets			
Property, plant and equipment	10	128,979	130,389
Investment properties		27,225	27,343
Right-of-use assets		7,438	–
Intangible assets		8,122	8,325
Goodwill	11	157,708	157,708
Equity and Financial assets investments at fair value	12	72,576	32,576
Prepayments for equity investments at fair value through Other comprehensive income	12	2,300	2,300
		404,348	358,641
Current assets			
Inventories		576	5,615
Trade and bill receivables	13	210,602	205,387
Loan to customers		142,441	167,672
Contract assets		172,436	242,101
Prepayments, deposit and other receivables		117,308	116,009
Investment at fair value through profit or loss		34,257	–
Restricted bank deposits	14	2,300	2,290
Cash at bank and on hand	15	19,468	78,593
		699,388	817,667
Current liabilities			
Trade and other payables	16	204,102	226,856
Payables for acquisition of a subsidiary	17	254,416	266,839
Bank and other borrowings		62,500	48,000
Corporate bonds	18	112,698	42,499
Convertible bonds	19	–	29,489
Guaranteed notes	20	105,859	100,524
Lease Liabilities		2,171	–
Income tax payable		20,222	20,925
Provision for warranties		757	741
		762,725	735,873

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2019 RMB' 000 (unaudited)	As at 31 December 2018 RMB' 000 (audited)
Net current (liabilities)/assets		(63,337)	81,794
Total assets less current liabilities		341,011	440,435
Non-current liabilities			
Lease liabilities		5,474	–
Corporate bonds	18	160,617	195,470
Deferred tax liabilities		443	443
		166,534	195,913
NET ASSETS		174,477	244,522
Capital and reserves			
Share capital		170,909	170,909
Reserves		(56,544)	18,106
Equity attributable to equity shareholders of the Company		114,365	189,015
Non-controlling interests		60,112	55,507
TOTAL EQUITY		174,477	244,522

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity shareholders of the Company

	Share capital RMB' 000	Share premium RMB' 000	Capital Reserve RMB' 000	Other reserve RMB' 000	Statutory surplus reserve RMB' 000	Exchange reserve RMB' 000	Equity revaluation reserve RMB' 000	Retained profits/ (accumulated losses) RMB' 000	Total RMB' 000	Non-controlling interests RMB' 000	Total equity RMB' 000
For the six months ended 30 June 2018 (unaudited)											
Balance at 1 January 2018	162,874	260,006	9,876	10,142	56,359	(3,109)	(33,950)	(160,122)	302,076	(5,965)	296,111
Changes in equity for 2018:											
Loss for the period	-	-	-	-	-	-	-	(66,808)	(66,808)	(206)	(67,014)
Other comprehensive income	-	-	-	-	-	1,537	-	-	1,537	-	1,537
Total comprehensive loss for the period	-	-	-	-	-	1,537	-	(66,808)	(65,271)	(206)	(65,477)
Issuance of shares by conversion of convertible bonds	8,035	84,602	-	-	-	-	-	-	92,637	-	92,637
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	34,389	34,389
Balance at 30 June 2018 (unaudited)	170,909	344,608	9,876	10,142	56,359	(1,572)	(33,950)	(226,930)	329,442	28,218	357,660
For the six months ended 30 June 2019 (unaudited)											
Balance at 1 January 2019	170,909	363,360	8,573	10,033	45,675	1,099	(39,034)	(371,600)	189,015	55,507	244,522
Changes in equity for 2019:											
Loss for the period	-	-	-	-	-	-	-	(93,512)	(93,512)	4,605	(88,907)
Other comprehensive loss	-	-	-	-	-	(1,343)	-	-	(1,343)	-	(1,343)
Total comprehensive loss for the period	-	-	-	-	-	(1,343)	-	(93,512)	(94,855)	4,605	(90,250)
Share-based payments	-	-	20,205	-	-	-	-	-	20,205	-	20,205
Balance at 30 June 2019 (unaudited)	170,909	363,360	28,778	10,033	45,675	(244)	(39,034)	(465,112)	114,365	60,112	174,477

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)
Net cash used in operating activities	<u>21,223</u>	<u>(59,741)</u>
Net cash used in investing activities	<u>(79,858)</u>	<u>(1,497)</u>
Net cash generated from financing activities	<u>(490)</u>	<u>(61,811)</u>
Net decrease in cash and cash equivalents	(59,125)	(123,049)
Cash and cash equivalents at 1 January	<u>78,593</u>	<u>195,061</u>
Cash and cash equivalents at 30 June, represented by bank balances and cash	<u>19,468</u>	<u>72,012</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with International Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2018. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has initially adopted IFRS 16 “Leases” (“IFRS 16”) from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group’s financial statements.

IFRS 16 “Leases”

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset’s useful life and the lease term on a straight-line basis. The principal annual rate is as follow:

Land and buildings	6.6%~50%
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Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group’s incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases with an initial lease term of 12 months and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are the provision of design, deployment and maintenance of optical fibers services, the provision of other communication networks services, environmentally intelligent technical products and services, and money lending services.

Revenue mainly represents contract revenue from the design, deployment and maintenance of optical fibers services, contract revenue from the installation and sale of low-voltage system equipment and related accessories, contract revenue from the other communication networks services, environmentally intelligent technical products and services, and money lending.

The amount of each significant category of revenue from continuing operations and discontinued operation recognised during the period is as follows:

	Six months ended 30 June	
	2019	2018
	RMB' 000	RMB' 000
	(unaudited)	(unaudited)
Continuing operations:		
Revenue from the provision of design, deployment and maintenance of optical fibers services	21,292	42,036
Revenue from other communication networks services	4,018	3,501
Revenue from environmentally intelligent technical products and services	17,478	7,842
Revenue from the provision of money lending services	9,761	10,506
Rental income	273	–
	52,822	63,885
Discontinued operation:		
Revenue from the installation and sales of low-voltage system equipment and related accessories	–	37,562
	52,822	101,447

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

3. REVENUE AND SEGMENT INFORMATION (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below.

	Six months ended 30 June 2019 (unaudited)							Total RMB' 000
	Continuing operations					Discontinued operation		
	Environmentally intelligent			Money lending RMB' 000	Rental RMB' 000	Sub-total RMB' 000	Low-voltage system RMB' 000	
	Optical fibers RMB' 000	Other communication networks RMB' 000	technical products and services RMB' 000					
Revenue from external customers and reportable segment revenue	<u>21,292</u>	<u>4,018</u>	<u>17,478</u>	<u>9,761</u>	<u>273</u>	<u>52,822</u>	<u>-</u>	<u>52,822</u>
Reportable segment gross (loss)/profit	<u>(9,537)</u>	<u>397</u>	<u>14,320</u>	<u>9,611</u>	<u>273</u>	<u>15,064</u>	<u>-</u>	<u>15,064</u>

	Six months ended 30 June 2018 (unaudited)							Total RMB' 000
	Continuing operations					Discontinued operation		
	Environmentally intelligent			Money lending RMB' 000	Sub-total RMB' 000	Low-voltage system RMB' 000		
	Optical fibers RMB' 000	Other communication networks RMB' 000	technical products and services RMB' 000					
Revenue from external customers and reportable segment revenue	<u>42,036</u>	<u>3,501</u>	<u>7,842</u>	<u>10,506</u>	<u>63,885</u>	<u>37,562</u>	<u>101,447</u>	
Reportable segment gross profit	<u>1,452</u>	<u>308</u>	<u>2,816</u>	<u>9,765</u>	<u>14,341</u>	<u>4,375</u>	<u>18,716</u>	

Geographic information

The Group operates mainly in the People's Republic of China (the "PRC") and certain countries in Africa. At 30 June 2019 and 2018, the Group did not have significant property, plant and equipment, intangible assets and goodwill physically located or allocated to operations outside the PRC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

4. OTHER INCOME

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)
Interest income	97	882	–	585	97	1,467
Investment income	1,954	1,340	–	–	1,954	1,340
Government grants	147	11	–	–	147	11
Net gain on trading securities	–	924	–	–	–	924
	2,198	3,157	–	585	2,198	3,742

5. FINANCE COSTS

	Six months ended 30 June					
	Continuing operations		Discontinued operation		Total	
	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)	2019 RMB' 000 (unaudited)	2018 RMB' 000 (unaudited)
Interest on bank and other borrowings	14,677	5,682	–	200	14,677	5,882
Finance charges on corporate bonds	8,529	8,108	–	–	8,529	8,108
Finance charges on convertible bonds	2,155	6,324	–	–	2,155	6,324
Finance charges on guaranteed notes	5,186	6,000	–	–	5,186	6,000
Finance charges on lease liabilities	495	–	–	–	495	–
Total borrowing costs	31,042	26,114	–	200	31,042	26,314
Net foreign exchange loss	886	402	–	–	886	402
	31,928	26,516	–	200	31,928	26,716

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

6. LOSS BEFORE TAXATION

	Continuing operations		Six months ended 30 June Discontinued operation		Total	
	2019	2018	2019	2018	2019	2018
	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)
Employee costs	10,386	9,820	–	4,325	10,386	14,145
Depreciation of property, plant and equipment	2,299	2,887	–	1,502	2,299	4,389
Amortisation of intangible assets	203	16	–	12	203	28
	<u>10,386</u>	<u>9,820</u>	<u>–</u>	<u>4,325</u>	<u>10,386</u>	<u>14,145</u>

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Continuing operations		Six months ended 30 June Discontinued operation		Total	
	2019	2018	2019	2018	2019	2018
	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)	RMB' 000 (unaudited)
Current taxation:						
– PRC Corporate Income Tax	74	284	–	751	74	1,035
Deferred taxation:						
– Origination and reversal of temporary differences	–	(42)	–	–	–	(42)
	<u>74</u>	<u>242</u>	<u>–</u>	<u>751</u>	<u>74</u>	<u>993</u>

- (i) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations in their respective jurisdictions of incorporation.

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2019 (2018: 16.5%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

- (ii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2019 (2018: 25%).
- (iii) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureaux to be taxed as enterprises with advanced and new technologies. As a result, the subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15% for the three years ended 31 December 2019.
- (iv) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises registered in Xinjiang province. As a result, the subsidiary is exempted from enterprise income tax for the five years ended 31 December 2022.
- (v) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureau to be taxed as enterprises registered in Xizang. As a result, the subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15%.

8. DIVIDENDS

The Directors do not recommend the payment of an interim dividend (2018: Nil)

9. LOSS PER SHARE

The basic loss per share for the period ended 30 June 2019 is calculated based on the loss attributable to the equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Loss attributable to ordinary equity shareholders of the Company:

	Six months ended 30 June	
	2019	2018
	RMB' 000	RMB' 000
	(unaudited)	(unaudited)
From continuing operations	(93,512)	(62,087)
From discontinued operations	—	(4,721)
	<u>(93,512)</u>	<u>(66,808)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

9. LOSS PER SHARE (continued)

Weighted average number of ordinary shares:

	Six months ended 30 June	
	2019 '000 (unaudited)	2018 '000 (unaudited)
Issued ordinary shares at 1 January	2,086,345	1,987,620
Effect of shares issued to equity shareholders of the Company	–	17,673
	<u>2,086,345</u>	<u>2,005,293</u>
Weighted average number of ordinary shares at 30 June	<u>2,086,345</u>	<u>2,005,293</u>

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment amounting to approximately RMB889,000 (six months ended 30 June 2018: RMB13,285,000).

11. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units (“CGUs”) identified according to the location of operations and major type of services as follows:

	30 June	31 December
	2019 RMB'000 (unaudited)	2018 RMB'000 (audited)
Provision of environmentally intelligent technical products and services	<u>157,708</u>	<u>157,708</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

12. EQUITY AND FINANCIAL ASSETS INVESTMENTS AT FAIR VALUE/PREPAYMENTS FOR INVESTMENTS IN FINANCIAL ASSETS

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Equity and financial assets investments at fair value		
Unlisted equity securities		
– Investment in Sino Partner	25,076	25,076
– Investment in Jiaxing Jiamiao	7,500	7,500
	<u>32,576</u>	<u>32,576</u>
Investment Fund	40,000	–
Less: impairment losses	–	–
	<u>72,576</u>	<u>32,576</u>
Prepayments for investments in financial assets	<u>2,300</u>	<u>2,300</u>

The unlisted equity securities represent investment in unlisted private entities. The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purpose. The Group does not intend to dispose them in the near future.

The Group held in investment fund with fixed return of 12% per annum and 3 years term from the establishments of the investment fund. Investment fund is ultimately invested but not limited to direct equity acquisition, convertible bonds, share subscription, and participation in private placement. The Investment Fund mainly focuses on Investments in new retail and commercial fields.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

13. TRADE AND BILL RECEIVABLES

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Trade and bill receivables – current portion	232,690	227,475
Less: Allowance for doubtful debts	(22,088)	(22,088)
	210,602	205,387
Trade receivables – non-current portion	–	–
	210,602	205,387

As at the end of the reporting period, the ageing analysis of trade and bill receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Within 90 days	138,873	146,029
91 to 180 days	28,700	11,404
181 to 365 days	14,170	14,763
Over 1 year	28,859	33,191
	210,602	205,387

14. RESTRICTED BANK DEPOSITS

Restricted bank deposits were mainly used to secure the Group's bank borrowings. These bank deposits will be released upon the repayment of the relevant bank borrowings.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

15. CASH AT BANK AND ON HAND

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Cash at bank and on hand	<u>19,468</u>	<u>78,593</u>

The Group's operations in the PRC (excluding Hong Kong) are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC (excluding Hong Kong) is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16. TRADE AND OTHER PAYABLES

At 30 June 2019, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

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

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Within 90 days	22,453	49,697
91 to 180 days	10,160	11,713
181 to 365 days	18,815	17,086
Over 1 year	<u>68,317</u>	<u>62,909</u>
	<u>119,745</u>	<u>141,405</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

17. PAYABLES FOR ACQUISITION OF A SUBSIDIARY

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Cash consideration for acquisition of a subsidiary	27,500	37,500
Contingent consideration for acquisition of a subsidiary	226,916	229,339
Total	254,416	266,839

18. CORPORATE BONDS

In 2019, no unsecured corporate bond was issued (31 December 2018: HK\$40,000,000, equivalent to approximately RMB35,048,000). The movements of the balance of corporate bonds are as follows:

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
At 1 January	237,969	215,623
Net proceeds received	–	28,653
Repayments during the period	(880)	(24,754)
Finance charges accrued for the period	8,529	24,280
Interest paid during the period	(6,373)	(17,017)
Transferred from convertible bond	30,450	–
Exchange adjustments	3,620	11,184
	273,315	237,969
Less: Amounts repayable within one year	(112,698)	(42,499)
Amounts repayable after one year	160,617	195,470

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

19. CONVERTIBLE BONDS

On 9 February 2017 and 27 June 2017, the Company issued convertible bonds with principal amounts of USD10,000,000 (equivalent to approximately RMB68,710,000) and USD4,000,000 (equivalent to approximately RMB27,317,000), respectively, to Donghai Investment Fund Series SPC. All of these convertible bonds have a maturity period of 2 years from their respective dates of issuance, bear interest at 8% per annum payable semi-annually. All of these convertible bonds are guaranteed by the Controlling Shareholder. The bonds are convertible at the option of the bondholder into ordinary shares during the conversion period beginning on the first anniversary of the issue date or such earlier date as may be agreed by the issuer and bondholder and ending on maturity date. The bondholder has the right to convert all or any part of the outstanding principal amount of the convertible bonds with the initial conversion price of HK\$1.00 per conversion share, subject to any adjustment from time to time (i.e. the conversion options).

On 24 May 2018 and 11 June 2018, the bondholders converted the convertible bonds with a principal amount of HK\$78 million and HK\$20 million into 78,000,000 shares and 20,725,388 shares of the Company with a conversion price of HK\$1 and HK\$0.965, respectively. Upon completion of these conversions, the amount of HK\$9,872,538.8, representing the par value, was credited to the Company's share capital. The difference between the carrying amount of the convertible bonds and the par value of HK\$88,127,461.2 was credited to the share premium. In addition, HK\$16,699,178 of the derivative components of the convertible bonds have been transferred to the share premium.

On 27 June 2019, the convertible bonds with a nominal value of US\$4,000,000 has matured. The new repayment schedule is to repay all of the outstanding amount of the convertible bond in cash. As the conversion rights has already expired, the outstanding amount of convertible bonds was transferred to corporate bonds. The convertible bonds are analysed as follows:

	Liability components 30 June 2019 RMB' 000 (unaudited)	Derivative components 30 June 2019 RMB' 000 (unaudited)	Total 30 June 2019 RMB' 000 (unaudited)
At 1 January 2019	27,490	1,999	29,489
Interest charged during the period	2,155	–	2,155
Interest paid during the period	(346)	–	(346)
Exchange adjustments	1,151	–	1,151
Transferred to corporate bonds	(30,450)	–	(30,450)
Derivative component	–	(1,999)	(1,999)
At 30 June 2019	–	–	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

20. GUARANTEED NOTES

In January 2017, the Company issued guaranteed notes with an aggregate principal amount of USD10,000,000 (equivalent to approximately RMB68,432,000). In June 2017, the Company issued guaranteed notes with an aggregate principal amount of USD4,000,000 (equivalent to approximately RMB27,282,000). The guaranteed notes will mature in January 2019 and June 2019, respectively, and bear interest at 11% per annum payable semi-annually. The guaranteed notes are guaranteed by the Controlling Shareholder.

The movements of the guaranteed notes during the period are as follows:

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
At 1 January	100,524	113,789
Interest charged during the period	5,186	11,465
Interest paid during the period	(346)	(10,380)
Repayments during the period	–	(25,924)
Exchange adjustments	495	11,574
At the end of the period	<u>105,859</u>	<u>100,524</u>
Loss: amounts repayable within one year	<u>(105,859)</u>	<u>(100,524)</u>
Amounts repayable after one year	<u>–</u>	<u>–</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

21. RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

- (a) For the current interim period, the following parties are identified as related party to the Group and the respective relationships are set out below:

Name of related party	Relationship
Mr. Jiang Changqing	Beneficial Shareholder and director of the Company

- (b) Transactions with the Controlling Shareholder and his affiliates

	30 June 2019 RMB' 000 (unaudited)	31 December 2018 RMB' 000 (audited)
Net decrease in non-interest bearing advances received from related parties	—	(2,303)

22. Capital COMMITMENTS

As at 30 June 2019, the Group had no capital commitments (31 December 2018: Nil).

OTHER INFORMATION

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS

The net proceeds from the Placing on 12 June 2012 (the “**Listing Date**”) were approximately HK\$108,700,000 (equivalent to approximately RMB88,700,000). The net proceeds of HK\$96,030,000 had been utilized from the Listing Date to 30 June 2019 according to the business plan as set out in the Prospectus. As of the date of this report, the directors are not aware of any material change to the planned use of the proceeds.

In September 2014, February 2016 and July 2017, the Company issued new shares with the total net proceeds of HK\$231,370,000. All the net proceeds from the aforesaid issuances had been fully utilised as stated in the business plan of the relevant announcements.

In June 2016, February 2017 and June 2017, the Company issued convertible bonds with the total net proceeds of HK\$158,680,000. All the net proceeds from the aforesaid issuances had been fully utilised as stated in the business plan of the relevant announcements.

SHARE OPTION SCHEME

The Company’s existing share option scheme was approved for adoption pursuant to the written resolutions of all of our Shareholders passed on 27 May 2012 (the “**Share Option Scheme**”) for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board shall approve from time to time.

Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier, service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries, (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 June 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit. The Company had granted a total of 168,000,000 share options since the adoption of the Share Option Scheme, of which 123,000,000 share options had been exercised, lapsed or cancelled and 45,000,000 share options remain outstanding. As at 25 May 2018, the Company had utilised 100% of the existing share option scheme limit. With the approval granted by the Shareholders at the extraordinary general meeting held on 11 July 2018 (the “**EGM 1**”), the limit on the grant of share options under the Share Option Scheme has been refreshed to 208,634,538 Shares, being 10% of the Shares in issue as at the date of the EGM 1, and the Directors are authorised to grant share options up to the refreshed share option scheme limit to the eligible participants. For details, please refer to the announcements of the Company dated 24 May 2018, 25 May 2018, 14 June 2018, 20 June 2018 and 11 July 2018. On 7 December 2018, the Company had utilised 200,000,000 share options, representing 95.86% of the existing share option scheme limit. With the approval granted by the Shareholders at the extraordinary general meeting held on 17 July 2019 (the “**EGM 2**”), the limit on the grant of share options under the Share Option Scheme has been refreshed to 208,634,538 Shares, being 10% of the Shares in issue as at the date of the EGM 2, and the Directors are authorised to grant share options up to the refreshed share option scheme limit to the eligible participants. For details, please refer to the announcements of the Company dated 31 May 2019, 2 July 2019 and 17 July 2018.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed “Share Option Scheme” in section headed “Statutory and General Information” in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 27 May 2012 and remains in force until 26 May 2022. The Company may, by resolution in general meeting or at such date as the Board determined, terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

- (1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (the “**Date of Grant**”) which must be a trading day;
- (2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and
- (3) the nominal value of the shares on the Date of Grant.

OTHER INFORMATION

Upon acceptance of the options, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

On 24 January 2017, 60,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All share options granted will vest six months from the date of grant. The share options granted will lapse on 23 July 2020. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK\$0.9 each and is settled gross in shares. For details, please refer to the announcement of the Company dated 24 January 2017.

On 24 May 2018, the Group granted share options to certain eligible participants to subscribe for a total of 92,880,000 ordinary shares at the exercise price of HK\$1.3 per Share under the Share Option Scheme, subject to acceptance of the grantees. On 25 May 2018, the Group cancelled the grant of the 92,880,000 Share Options to the grantees in accordance with the terms of the Share Option Scheme. As at 25 May 2018, none of the share options granted by the Company has been accepted by any of the grantees. The Board considers that cancellation of the grant of the share options would not have any material impact on the business operation or financial position of the Group. For details, please refer to the announcements of the Company dated 24 May 2018 and 25 May 2018.

On 7 December 2018, a total of 200,000,000 share options were granted to directors of the Company, employees and consultants of the Group under the Share Option Scheme. All share options granted will vest 12 months from the date of grant. The share options granted shall be exercisable within a 2 years period from 7 December 2019 to 6 December 2021. Each share option gives the holder the right to subscribe for one ordinary share of the Company at HK\$0.9. For details, please refer to the announcement of the Company dated 7 December 2018.

(i) The terms and conditions of the options granted are as follows:

	Number of share options	Vesting conditions	Contractual life of share options
Share options granted to directors	21,600,000	Six months from the date of grant	3.5 years
	76,000,000	1 year from the date of grant	2 years
Share options granted to employees	38,400,000	Six months from the date of grant	3.5 years
	108,000,000	1 year from the date of grant	2 years
Share options granted to consultants	16,000,000	1 year from the date of grant	2 years
	<hr/>		
Total	<u>260,000,000</u>		

(ii) Reconciliation of outstanding share options:

	Weighted average exercise price	Numbers of options
Outstanding at 1 January 2019 and 30 June 2019	HK\$0.90	<u>227,000,000</u>

The share options outstanding at 30 June 2019 had an exercise price of HK\$0.90. The share options granted in 2017 have a remaining contractual life of 1.08 years. The share options granted in December 2018 have a remaining contractual life of 2 years starting from 7 December 2019.

(iii) Measurement of fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial Model. The contractual life of the share option is used as an input into this model.

OTHER INFORMATION

Fair value of share options granted in 2017 and assumptions	Share options granted to directors	Share options granted to employees
Fair value at measurement date	HK\$0.27	HK\$0.237
Share price	HK\$0.90	HK\$0.90
Exercise price	HK\$0.90	HK\$0.90
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	39.469%	39.469%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	3.5	3.5
Expected dividends	0.000%	0.000%
Risk-free interest rate (based on Exchange Fund Notes)	1.364%	1.364%

Fair value of share options granted in December 2018 and assumptions	Share options granted to directors	Share options granted to employees	Share options granted to consultants
Fair value at measurement date	HK\$0.230	HK\$0.229	HK\$0.229
Share price	HK\$0.840	HK\$0.840	HK\$0.840
Exercise price	HK\$0.900	HK\$0.900	HK\$0.900
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	41.100%	41.100%	41.100%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	2.0	2.0	2.0
Expected dividends	0.000%	0.000%	0.000%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	2.010%	2.010%	2.010%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

The estimated fair value of the options granted in December 2018 is approximately RMB45,939,000, among which RMB20,205,000 were recognised as expense to the current period's profit or loss and the remaining will be recognised during the rest of vesting period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS 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 each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Company

Name of director	Name of Group member/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Jiang Changqing (Note 2 and note 3)	Our Company	Interest of a controlled corporation	617,737,000 Shares (L)	29.61%
	Our Company	Beneficially owned	6,300,000 Shares (L)	0.30%
	Our Company	Interest of Spouse	10,195,000 Shares (L)	0.49%

Notes:

- The letter "L" denotes the directors' long position in the shares of our Company or the relevant associated corporation.
- The 617,737,000 Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Mr. Jiang Changqing is deemed to be interested in the 3,800,000 share options held by Ms. Guo Aru.
- Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Ms. Guo Aru held 10,195,000 Shares directly. Mr. Jiang Changqing is deemed to be interested in the 10,195,000 Shares held by Ms. Guo Aru. Ms. Guo Aru is also interested in 3,800,000 share options granted under the Share Option Scheme. Mr. Jiang Changqing is deemed to be interested in the 3,800,000 share options held by Ms. Guo Aru.

OTHER INFORMATION

Save as disclosed above, as at 30 June 2019, none of the directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2019, so far as was known to the directors, the following persons/entities (other than the directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Name of Group member	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Guo Aru (Note 2)	Our Company	Beneficial owner	10,195,000 Shares (L)	0.49%
		Interest of spouse	624,037,000 Shares (L)	29.91%
Bright Warm Limited (Note 3)	Our Company	Beneficial owner	617,737,000 Shares (L)	29.61%
Asia United Fund (Note 4)	Our Company	Investment manager	281,708,000 Shares (L)	13.50%
Cheng Weihong (Note 5)	Our Company	Interest of a controlled corporation	169,545,000	8.13%
Mighty Mark Investments Limited (Note 5)	Our Company	Beneficial owner	169,545,000	8.13%
Tong Shipping (Note 6)	Our Company	Interest of spouse	169,545,000	8.13%

Notes:

1. The letter “L” denotes the person’s long position in the shares of our Company or the relevant Group member.
2. Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Therefore, Ms. Guo Aru is deemed to be interested in the 624,037,000 Shares owned by Mr. Jiang Changqing by virtue of the SFO.
3. Bright Warm Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Therefore, Mr. Jiang Changqing is also deemed to be interested in the 617,737,000 Shares owned by Bright Warm Limited by virtue of the SFO.
4. To the best information, belief and knowledge of the Directors, save as being a shareholder of the Company, each of Asia United Fund and its ultimate beneficial owners are independent third parties.
5. Mighty Mark Investments Limited is a company incorporated in the British Virgin Islands and the entire issued capital of which is beneficially owned by Cheng Weihong. Therefore, Cheng Weihong is deemed to be interested in the 169,545,000 Shares owned by Mighty Mark Investments Limited by virtue of the SFO.
6. Tong Shiping is the spouse of Cheng Weihong. Therefore, Tong Shiping is deemed to be interested in the 169,545,000 Shares owned by Cheng Weihong by virtue of the SFO.

Save as disclosed above, as at 30 June 2019, the directors were not aware of any other persons/entities (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period ended 30 June 2019.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Arbitration against China Mobile

During the period from September 2018 to August 2019, Hebei Changtong Communication Engineering Co. Ltd. (河北昌通通信工程有限公司, “**Hebei Changtong**”), a wholly-owned subsidiary of the Group, submitted several batches of applications for arbitration to the Shijiazhuang Arbitration Commission (石家莊仲裁委員會) and the other arbitration commissions against China Mobile Group Hebei Co., Ltd. (中國移動通信集團河北有限公司, “**China Mobile Hebei**”) for the repayment of long outstanding service fees and interests (the “**Arbitrations**”).

OTHER INFORMATION

As at the date of this report, Hebei Changtong has applied for the repayment of a total of approximately RMB324.66 million for the Arbitrations against China Mobile Hebei. As at the date of this report, the Shijiazhuang Arbitration Committee and the other arbitration commissions have ordered China Mobile Hebei to repay a total of approximately RMB105.15 million in respect of the Arbitrations. The remaining unawarded amount of service fees and interests would be subject to future decisions to be handed down by the Shijiazhuang Arbitration Committee and the other arbitration commissions. For further details, please refer to the announcement of the Company dated 28 August 2019 in relation to the Arbitrations.

Placing of unlisted warrants under specific mandate

On 17 July 2019, the Shareholders at the extraordinary general meeting approved the Company to issue a maximum of 400,000,000 warrants at the issue price of HK\$0.15 per warrant and at the initial warrant exercise price of HK\$0.78 per warrant share (subject to adjustment). In the event that any of conditions of the warrant placing is not fulfilled by 30 September 2019, the warrant placing agreement shall forthwith cease and terminate. For further details, please refer to the announcements of the Company dated 31 May 2019, 2 July 2019 and 17 July 2019.

Issuance of consideration share for acquisition of 51% equity interest in Yourui

Pursuant to the audited management accounts of Yourui for the years ended 31 December 2017 and 31 December 2018, Yourui has met the performance guarantee as stated in the share purchase agreement dated 20 October 2017. On 2 July 2019, the Company allotted and issued 21,414,555 shares at the issue price of HK\$1.0 per share as the 2017 consideration shares to the Vendors. The 2018 consideration shares of 334,913,945 shares at the issue price of HK\$0.7087 per share shall be allotted and issued by the Company under specific mandate and the issuance is subject to the approval of the independent Shareholders at the extraordinary general meeting. For further details, please refer to the announcements of the Company dated 20 October 2017, 19 January 2018, 12 February 2018 and 16 August 2019.

Repayment schedule of convertible bond and guaranteed note

Each of the US\$4,000,000 convertible bond and US\$4,000,000 guaranteed note has matured on 27 June 2019 with an outstanding amount of US\$4,640,000 and US\$4,440,000, respectively, and the US\$10,000,000 guaranteed note has matured on 17 July 2019 with an outstanding amount of US\$11,000,000. The new repayment schedule is to repay all of the outstanding amount of the convertible bond and guaranteed notes in cash and the conversion rights under the convertible bond have already expired. For further details, please refer to the announcements of the Company dated 18 January 2017, 10 February 2017, 15 June 2017, 27 June 2017, 17 January 2019, 17 July 2019 and 18 July 2019.

COMPETING INTERESTS

Save and except for interests in the Group, none of the directors and Mr. Jiang nor their respective associates (as defined under the Listing Rules) had any interest in any other companies as at 30 June 2019 which may, directly or indirectly, compete with the Group's business.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the period where the Company’s shares were listed on GEM. Since the Company’s shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the period ended 30 June 2019. After the reporting period, on 31 July 2019, Mr. Jiang Changqing, the chairman and the executive director of the Company, and Bright Warm Limited, the entire issued capital of which is owned by Mr. Jiang Changqing, dealt in securities of the Company during the black-out period, which is not in compliance with the code of conduct. For further details, please refer to the announcement of the Company dated 1 August 2019.

CORPORATE GOVERNANCE CODE

In the opinion of the directors, throughout the period ended 30 June 2019 the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 to 3.23 of the Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 to C3.7 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee internal control procedures of the Company. The audit committee comprises three independent non-executive directors, namely Ms. Li Xiaohui (chairlady of the audit committee), Mr. Meng Fanlin and Mr. Wang Haiyu.

The audit committee had reviewed the interim results for the period ended 30 June 2019 and provided advice and comments thereon and the audit committee has agreed to the figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the period ended 30 June 2019.

OTHER INFORMATION

PUBLICATION OF THE INTERIM RESULTS AND THE INTERIM REPORT

The interim results announcement and this interim report are published on the website of The Stock Exchange of Hong Kong Limited at <http://www.hkexnews.hk> and the website of the Company at www.chinauton.com.hk, respectively.

By order of the Board
China U-Ton Holdings Limited
Jiang Changqing
Chairman and Executive Director

Hong Kong, 29 August 2019