Smartac
中國智能

# Smartac Group China Holdings Limited
# 中國智能集團控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 395)**

## 2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Smartac Group China Holdings Limited (the "**Company**") presented the unaudited consolidated results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 together with the comparative figures. The condensed consolidated interim financial statements (the "**Interim Financial Statements**") have not been audited, but have been reviewed by the Company's Audit Committee.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018*

| | | Unaudited | |
|---|---|---|---|
| | | **Six months ended 30 June** | |
| | | **2018** | 2017 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Revenue** | *3* | **10,558** | 8,828 |
| Fair value gain of investment properties | | **200** | 700 |
| Other income | *4(a)* | **3,867** | 2,233 |
| Hardware, telecom and direct operation costs | | **(2,407)** | (4,860) |
| Employee benefits expenses | *4(c)* | **(12,659)** | (15,798) |
| Other operating expenses | | **(6,828)** | (9,207) |
| Depreciation | *4(d)* | **(1,008)** | (1,296) |
| Amortisation of intangible assets | *4(d)* | **(3,352)** | (4,884) |
| Reversal of provision for onerous contracts | | **–** | 50,575 |
| Provision for capital gain tax | | **(300)** | – |
| Gain on disposal of a subsidiary | | **–** | 2,695 |
| **(Loss)/profit from operations** | | **(11,929)** | 28,986 |
| Finance costs | *4(b)* | **(293)** | (430) |
| Share of result of an associate | | **(419)** | (334) |
| **(Loss)/profit before tax** | *4* | **(12,641)** | 28,222 |
| Income tax credit/(expense) | *5* | **696** | (2,054) |
| **(Loss)/profit for the period** | | **(11,945)** | 26,168 |
| **Other comprehensive income:** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Fair value changes of equity investments at fair value through other comprehensive income (FVTOCI) | | **1,000** | – |
| *Items that will be reclassified to profit or loss:* | | | |
| Exchange differences reclassified to profit or loss on disposal of a subsidiary | | **–** | (41) |
| Exchange differences on translating foreign operations | | **(439)** | (2,741) |
| **Other comprehensive income for the period, net of tax** | | **561** | (2,782) |
| **Total comprehensive income for the period** | | **(11,384)** | 23,386 |

| | Note | Unaudited<br>Six months ended 30 June<br>**2018**<br>***RMB'000*** | <br><br>2017<br>*RMB'000* |
|---|---|---|---|
| **(Loss)/profit for the period attributable to:** | | | |
| Owners of the Company | | **(9,911)** | 26,394 |
| Non-controlling interests | | **(2,034)** | (226) |
| | | **(11,945)** | 26,168 |
| **Total comprehensive income for the period attributable to:** | | | |
| Owners of the Company | | **(9,338)** | 23,678 |
| Non-controlling interests | | **(2,046)** | (292) |
| | | **(11,384)** | 23,386 |
| **(Loss)/earnings per share** | | | |
| Basic (cents) | *7(a)* | **(0.21)** | 0.55 |
| Diluted (cents) | *7(b)* | **(0.18)** | 0.55 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018*

| | *Note* | **Unaudited 30 June 2018 *RMB'000*** | Audited 31 December 2017 *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **7,850** | 8,793 |
| Investment properties | | **56,800** | 56,600 |
| Construction in progress | | **12** | 13 |
| Prepaid land lease payments | | **2,034** | 2,062 |
| Goodwill | | **59,883** | 59,883 |
| Intangible assets | | **36,814** | 40,166 |
| Investment in an associate | | **2,628** | 3,047 |
| Equity investments at FVTOCI | | **2,800** | – |
| Available-for-sale financial assets | | **–** | 1,800 |
| | | **168,821** | 172,364 |
| **Current assets** | | | |
| Prepaid land lease payments | | **56** | 56 |
| Other investments | | **–** | 1,000 |
| Inventories | | **1,689** | 1,857 |
| Trade and other receivables | *8* | **32,436** | 49,488 |
| Due from related party | | **83** | 744 |
| Due from non-controlling interest | | **21** | 20 |
| Pledged bank deposits | | **–** | 19 |
| Cash and cash equivalents | | **26,206** | 20,532 |
| | | **60,491** | 73,716 |
| **Current liabilities** | | | |
| Trade and other payables | *9* | **25,349** | 25,460 |
| Contingent shares payables | | **8,513** | 5,941 |
| Due to directors | | **134** | 96 |
| Due to related parties | | **5,804** | 5,487 |
| Bank loans | *10* | **10,000** | 10,500 |
| Current tax liabilities | | **685** | 4,578 |
| | | **50,485** | 52,062 |

| | Note | Unaudited<br>30 June<br>2018<br>*RMB'000* | Audited<br>31 December<br>2017<br>*RMB'000* |
|---|---|---|---|
| **Net current assets** | | **10,006** | 21,654 |
| **Total assets less current liabilities** | | **178,827** | 194,018 |
| **Non-current liabilities** | | | |
| Contingent shares payables | | **12,136** | 20,547 |
| Deferred tax liabilities | | **22,181** | 22,991 |
| | | **34,317** | 43,538 |
| **NET ASSETS** | | **144,510** | 150,480 |
| **Capital and reserves** | | | |
| Share capital | *12* | **216,621** | 214,067 |
| Reserves | | **(117,780)** | (111,296) |
| Equity attributable to owners of the Company | | **98,841** | 102,771 |
| Non-controlling interests | | **45,669** | 47,709 |
| **TOTAL EQUITY** | | **144,510** | 150,480 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the six months ended 30 June 2018*

**Unaudited**
**Six months ended 30 June 2018**

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** *RMB'000* | **Share premium account** *RMB'000* | **Statutory reserve** *RMB'000* | **Foreign currency translation reserve** *RMB'000* | **Capital reserve** *RMB'000* | **Other reserve** *RMB'000* | **FVTOCI reserve** *RMB'000* | **Accumulated losses** *RMB'000* | **Total** *RMB'000* | **Non-controlling interests** *RMB'000* | **Total** *RMB'000* |
| **At 1 January 2018** | **214,067** | **1,075,224** | **172** | **(99,727)** | **(9,619)** | **(8,385)** | **–** | **(1,068,961)** | **102,771** | **47,709** | **150,480** |
| **Adjustments on initial application of IFRS 9** ***(note 2)*** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,200)** | **2,194** | **(6)** | **6** | **–** |
| **At 1 January 2018 (restated)** | **214,067** | **1,075,224** | **172** | **(99,727)** | **(9,619)** | **(8,385)** | **(2,200)** | **(1,066,767)** | **102,765** | **47,715** | **150,480** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **(400)** | **–** | **–** | **973** | **(9,911)** | **(9,338)** | **(2,046)** | **(11,384)** |
| **Issue of new shares upon consideration shares granted** | **2,554** | **2,860** | **–** | **–** | **–** | **–** | **–** | **–** | **5,414** | **–** | **5,414** |
| **At 30 June 2018** | **216,621** | **1,078,084** | **172** | **(100,127)** | **(9,619)** | **(8,385)** | **(1,227)** | **(1,076,678)** | **98,841** | **45,669** | **144,510** |

Unaudited
Six months ended 30 June 2017

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium account *RMB'000* | Statutory reserve *RMB'000* | Foreign currency translation reserve *RMB'000* | Capital reserve *RMB'000* | Other reserve *RMB'000* | Accumulated losses *RMB'000* | Total *RMB'000* | Non-controlling interests ("NCI") *RMB'000* | Total *RMB'000* |
| At 1 January 2017 | 214,067 | 1,075,224 | 172 | (93,934) | (9,619) | (8,385) | (1,085,232) | 92,293 | 45,194 | 137,487 |
| Total comprehensive income for the period | – | – | – | (2,716) | – | – | 26,394 | 23,678 | (292) | 23,386 |
| Capital contribution from NCI | – | – | – | – | – | – | – | – | 794 | 794 |
| Disposal of a subsidiary | – | – | – | – | – | – | – | – | (313) | (313) |
| At 30 June 2017 | 214,067 | 1,075,224 | 172 | (96,650) | (9,619) | (8,385) | (1,058,838) | 115,971 | 45,383 | 161,354 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
*For the six months ended 30 June 2018*

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net cash generated from/(used in) operating activities | **3,386** | (37,115) |
| Net cash generated from investing activities | **3,088** | 5,394 |
| Net cash (used in)/generated from financing activities | **(593)** | 2,070 |
| Effect of foreign exchange rate changes | **(207)** | (3,105) |
| Net increase/(decrease) in cash and cash equivalents | **5,674** | (32,756) |
| Cash and cash equivalents at 1 January | **20,532** | 99,953 |
| Cash and cash equivalents at 30 June | **26,206** | 67,197 |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

The following notes form an integral part of the Interim Financial Statements.

## 1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 18 July 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Interim Financial Statements should be read in conjunction with the 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2017 except as stated below.

The Interim Financial Statements have been prepared under the historical cost convention, unless mentioned otherwise (e.g. investment properties and certain financial instruments that are measured at fair value).

## 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("**IFRSs**") issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise IFRSs, IAS and Interpretations.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Interim Financial Statements.

### IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. As permitted by the transitional provisions of IFRS 9, the Group was elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

***(a) Classification and measurement***

From 1 January 2018, the Group irrevocably designates unlisted equity securities previously classified as available-for-sale financial assets to be equity investments at FVTOCI. Fair value gains and losses on such equity investments are recognised in other comprehensive income and there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of such equity investments. Dividends from such equity investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

As permitted by IFRS 9, the Group has designated such equity investments at the date of initial application as measured at FVTOCI. As a result, previous impairment losses of available-for-sale financial assets of approximately RMB2,194,000 and approximately RMB6,000 were adjusted in the opening retained earnings and opening non-controlling interests respectively to FVTOCI reserve. Since the carrying amount of available-for-sale financial assets was close to its fair value, no fair value adjustment was made at 1 January 2018. Available-for-sale financial assets of RMB1,800,000 was then reclassified to equity investments at FVTOCI. The fair value of equity investments at FVTOCI as at 30 June 2018 was RMB2,800,000 and thus a fair value gain of RMB1,000,000 was recognised in the other comprehensive income in the Current Period.

*(b)* ***Impairment***

IFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group adopts to recognise and measure lifetime expected credit loss on financial assets and the adoption of new impairment model as at 1 January 2018 have not resulted in material impact on the carrying amount of the Groups' financial assets and no adjustment was made in opening retained earnings at 1 January 2018.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers and replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction Contracts, which specifies the accounting for revenue from construction contracts. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group adopts the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

*(a)* ***Timing of revenue recognition***

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that IFRS 15 does not have significant impact on how it recognises revenue from the provision of services.

For contracts with customers in which the sale of finished goods is generally expected to be the only performance obligation, adoption of IFRS 15 does not have any impact on the Group's revenue or profit or loss. The Group considers the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the sales value of goods sold and services rendered less returns, discounts and value added taxes and other sales taxes.

The Group has three reportable segments as follows:

(i) Online to Offline ("**O2O**") solutions segment – Sale of software and provision of O2O consultation service

(ii) Integrated digital marketing ("**IDM**") solutions segment – Provision of digital advertising platform and related solutions

(iii) E-Commerce solutions segment – Provision of marketing strategy and management of operation of online shop on e-commerce platform

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Each of the above operating segments corresponds to related subsidiaries engaging in the respective segment activities.

Segment profits or losses do not include corporate income and expenses. Segment assets do not include corporate assets. Segment liabilities do not include corporate liabilities.

### (i) Information about reportable segments profit or loss, assets and liabilities:

| | O2O solutions segment Unaudited Six months ended 30 June | | IDM solutions segment Unaudited Six months ended 30 June | | E-Commerce solutions segment Unaudited Six months ended 30 June | | Total Unaudited Six months ended 30 June | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | **2,741** | 7,748 | **2,068** | 1,080 | **5,749** | – | **10,558** | 8,828 |
| Segment (loss)/profit | **(3,095)** | (9,217) | **(1,897)** | 41,697 | **(3,985)** | – | **(8,977)** | 32,480 |
| Interest revenue | **4** | 3 | **2** | 6 | **19** | – | **25** | 9 |
| Interest expense | **293** | 430 | **–** | – | **–** | – | **293** | 430 |
| Depreciation and amortisation | **611** | 5,782 | **362** | 374 | **3,387** | – | **4,360** | 6,156 |
| Share of result of an associate | **–** | – | **(419)** | (334) | **–** | – | **(419)** | (334) |
| Income tax (credit)/ expense | **24** | 2,054 | **–** | – | **(720)** | – | **(696)** | 2,054 |

| | O2O solutions segment | | IDM solutions segment | | E-Commerce solutions segment | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **Unaudited** | Audited | **Unaudited** | Audited | **Unaudited** | Audited | **Unaudited** | Audited |
| | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 | **30 June 2018** | 31 December 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Segment assets | **75,475** | 76,471 | **27,713** | 30,125 | **125,441** | 135,623 | **228,629** | 242,219 |
| Segment liabilities | **(30,393)** | (29,106) | **(5,429)** | (4,370) | **(20,620)** | (26,792) | **(56,442)** | (60,268) |
| Investment in an associate | **–** | – | **2,628** | 3,047 | **–** | – | **2,628** | 3,047 |

**(ii) Reconciliations of reportable segments revenue and profit or loss:**

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| Consolidated revenue | **10,558** | 8,828 |
| **Profit or loss** | | |
| Total (loss)/profit of reportable segments | **(8,977)** | 30,426 |
| Unallocated amounts: | | |
| Unallocated head office and corporate expenses | **(2,668)** | (4,258) |
| Provision for capital gain tax | **(300)** | – |
| Consolidated (loss)/profit for the period | **(11,945)** | 26,168 |

**(iii) Reconciliations of reportable segments assets and liabilities:**

| | **Unaudited 30 June 2018** *RMB'000* | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| **Assets** | | |
| Total assets of reportable segments | **228,629** | 242,219 |
| Unallocated amounts: | | |
| Unallocated head office and corporate assets | **683** | 3,861 |
| Consolidated total assets | **229,312** | 246,080 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **56,442** | 60,268 |
| Unallocated amounts: | | |
| Contingent shares payables | **20,649** | 26,488 |
| Unallocated head office and corporate liabilities | **7,711** | 8,844 |
| Consolidated total liabilities | **84,802** | 95,600 |

**(iv) Geographical information:**

***Revenue***

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

| | **Unaudited Six months ended 30 June** | |
|---|---|---|
| | **2018** *RMB'000* | 2017 *RMB'000* |
| The People's Republic of China ("**PRC**") except Hong Kong | **8,347** | 8,303 |
| Hong Kong | **2,211** | 396 |
| Others | **–** | 129 |
| Consolidated total revenue | **10,558** | 8,828 |

In presenting the geographical information, revenue is based on the locations of the customers.

The Group's non-current assets are substantially located in the PRC.

## 4. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax is arrived at after (crediting)/charging:

| | Unaudited Six months ended 30 June 2018 *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| **(a) Other income:** | | |
| Bank interest income | **(25)** | (9) |
| Interest on other investments | **(57)** | – |
| Government grants | **(240)** | (373) |
| Net foreign exchange gain | **–** | (12) |
| Gross rental income from investment properties | **(1,565)** | (1,426) |
| Property management and related income | **(898)** | – |
| Value-added tax refund | **(334)** | (100) |
| Gain on disposal of property, plant and equipment | **(26)** | – |
| Gain on disposal of construction in progress | **(3)** | – |
| Fair value change on contingent shares payables | **(673)** | – |
| Others | **(46)** | (313) |
| | **(3,867)** | (2,233) |
| **(b) Finance costs:** | | |
| Interest expenses on bank loans wholly repayable within five years | **293** | 430 |
| **(c) Employee benefits expenses:** | | |
| Salaries, bonus and allowance | **10,320** | 13,791 |
| Retirement benefit scheme contributions | **2,339** | 2,007 |
| | **12,659** | 15,798 |
| **(d) Other items:** | | |
| Amortisation | | |
| – prepaid land lease payments | **28** | 28 |
| – intangible assets | **3,352** | 4,884 |
| Depreciation | **1,008** | 1,296 |
| Cost of inventories sold | **788** | 659 |
| Operating lease charges in respect of the office premises in Hong Kong and leasehold land in the PRC | **1,829** | 1,370 |

## 5. INCOME TAX CREDIT/(EXPENSE)

Income tax credit/(expense) has been recognised in profit or loss as following:

| | Unaudited Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax – PRC enterprise income tax("EIT")** | | |
| Provision for the period | **(1)** | – |
| Under provision in prior year | **(114)** | – |
| | **(115)** | – |
| **Deferred tax** | | |
| Provision for the period | **811** | (2,054) |
| **Income tax credit/(expense)** | **696** | (2,054) |

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

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the six months ended 30 June 2018 and 2017.

PRC EIT has been provided at a rate of 25% (2017: 25%).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/regions in which the Group's subsidiaries operate, based on existing legislation, interpretation and practices in respect thereof.

## 6. DIVIDENDS

The directors do not recommend the payment of any dividend for the six months ended 30 June 2018 (2017: nil).

## 7. (LOSS)/EARNINGS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately RMB9,911,000 (2017: profit RMB26,394,000) and the weighted average number of ordinary shares of 4,764,070,026 (2017: 4,762,033,424) in issue during the period.

### (b) Diluted loss per share

The calculation of diluted loss per share attributable to owners of the Company is based on the loss for the period attributable to owners of the Company of approximately RMB9,911,000 and the weighted average number of ordinary shares of 4,976,541,430 arising from the effect of contingent shares payables.

No diluted earnings per share is presented as the Company did not have any dilutive potential ordinary share during the period ended 30 June 2017.

## 8. TRADE AND OTHER RECEIVABLES

| | **Unaudited 30 June 2018** ***RMB'000*** | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| Trade receivables *(note)* | **3,326** | 22,824 |
| Less: Allowance | **(526)** | (913) |
| | **2,800** | 21,911 |
| Advance payments to suppliers | **34** | 147 |
| Deposits | **6,266** | 4,924 |
| Prepayments | **2,604** | 1,553 |
| Other receivables | | |
| – VAT receivables | **12,412** | 12,289 |
| – Other receivables due from a service provider | **5,000** | 5,000 |
| – Other receivable | **3,065** | 2,003 |
| – Others | **255** | 1,661 |
| | **32,436** | 49,488 |

*Note:*

The Group's trading terms with customers are mainly on credit. The credit terms generally range from 30 to 90 days. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors and senior management.

The ageing analysis of the Group's trade receivables, based on invoice date, and net of allowance, is as follows:

| | **Unaudited 30 June 2018** ***RMB'000*** | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| Up to 3 months | **2,349** | 21,714 |
| 3 to 6 months | **451** | 181 |
| 6 months to 1 year | **–** | 16 |
| Over 1 year | **–** | – |
| | **2,800** | 21,911 |

## 9. TRADE AND OTHER PAYABLES

| | **Unaudited 30 June 2018** *RMB'000* | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| Trade payables *(note)* | **2,397** | 2,938 |
| Receipts in advance from customers | **830** | 733 |
| Payables for construction costs and purchase of property, plant and equipment | **891** | 966 |
| Other payables | | |
| – Settlement obligations | **4,462** | 2,778 |
| – Other tax payables | **193** | 1,284 |
| – Rental deposits from tenants | **1,160** | 677 |
| – Others | **3,041** | 3,200 |
| Capital gain tax payable | **5,968** | 5,581 |
| Provision for social security costs | **4,068** | 3,345 |
| Accrued expenses | **2,339** | 3,958 |
| | **25,349** | 25,460 |

*Note:*

The ageing analysis of the Group's trade payables, based on the date of receipt of goods or service consumed, is as follows:

| | **Unaudited 30 June 2018** *RMB'000* | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| Up to 3 months | **124** | 661 |
| 3 to 6 months | **43** | 43 |
| 6 months to 1 year | **–** | – |
| Over 1 year | **2,230** | 2,234 |
| | **2,397** | 2,938 |

## 10. BANK LOANS

The analysis of the Group's bank loans is as follows:

| | **Unaudited 30 June 2018** *RMB'000* | Audited 31 December 2017 *RMB'000* |
|---|---|---|
| Secured bank loans repayable within one year | **10,000** | 10,500 |

The Group's bank loans are repayable within one year. Bank loan of RMB2,000,000 is arranged at fixed interest rate and exposes the Group to fair value interest rate risk while amount of RMB8,000,000 bank loans are arranged at floating interest rates, thus exposing the Group to cash flow interest rate risk.

As at 30 June 2018, the Group's bank loans of RMB10,000,000 are secured by:

– Charge over the building;

– Charge over the prepaid land lease payments;

– Charge over the investment properties; and

– Personal guarantee provided by a director of subsidiaries of the Company.

## 11. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the written resolution passed by the shareholders of the Company on 24 September 2002, the share option scheme (the "**Old Scheme**") was approved and adopted and, the board of directors may, at its discretion, grant options to any director (whether executive or non-executive and whether independent or not), any employee (whether full-time or part-time), any consultant or adviser of or to the Company or the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid).

Pursuant to the resolution passed by the shareholders of the Company in the annual general meeting held on 27 May 2011, the Old Scheme was terminated such that no further options could thereafter be offered under the Old Scheme but in all other respects and provisions of the Old Scheme shall remain in full force and effect, while a new share option scheme (the "**New Scheme**") was approved and adopted and, the board of directors may, at its discretion, grant options to the eligible persons as defined in the New Scheme.

The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the full-time and part-time employees, directors and full-time and part-time business consultants of the Company and the shareholders of the Group. The New Scheme became effective on 27 May 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

During the six months ended 30 June 2018 and the year ended 31 December 2017, no options were granted under the New Scheme. No options were outstanding as at 30 June 2018 and 31 December 2017.

## 12. SHARE CAPITAL

| | The Company | |
|---|---|---|
| | Number of shares | Nominal value of shares *HK$'000* |
| **Authorised:** | | |
| Ordinary shares of HK$0.05 each | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018 | **8,000,000,000** | **400,000** |

| | Number of shares | Nominal value of shares *HK$'000* | Nominal value of shares *RMB'000* |
|---|---|---|---|
| **Issued and fully paid:** | | | |
| At 1 January 2017, 31 December 2017 and 1 January 2018 | 4,762,033,424 | 238,101 | 214,067 |
| Issue of shares upon consideration shares granted *(note)* | 61,437,500 | 3,072 | 2,554 |
| At 30 June 2018 | **4,823,470,924** | **241,173** | **216,621** |

*Note:* On 25 June 2018, 61,437,500 consideration shares were issued at HK$0.106, based on the closing price of the Company's shares on 22 June 2018, of which approximately RMB2,860,000 (equivalent to HK$3,441,000) was credited to the Company's share premium account, and approximately RMB2,554,000 (equivalent to HK$3,072,000) was credited to share capital.

## 13. SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Except disclosed in note 14, the Group did not have any other significant investments, material acquisitions and disposals during the period.

## 14. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 8 June 2018, Smartac Solutions (Suzhou) Limited, a non-wholly owned subsidiary of the Company, as the vendor entered into a conditional sale and purchase agreement with the purchasers, to dispose of its 2.1803% equity interest in 上海荷特寶配餐服務有限公司, which engaged in restaurants and catering business for a cash consideration of RMB2,800,000 (the "**Disposal**"). 上海荷特寶配餐服務有限公司 is not a subsidiary of the Company and the Disposal was completed on 6 August 2018.

Saved for the above, there were no material non-adjusting events after the reporting period.

## 15. CONTINGENT LIABILITIES

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) on 28 December 2017. This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non tax residents and fall within the scope as described in the Public Notice [2015] No. 7 ("**Public Notice No. 7**") issued by the State Administration of Taxation (the "**SAT**").

The capital gain derived from such indirect transfer will be subject to EIT and the withholding agent should withhold the EIT amount for settlement with the tax authorities pursuant to the Public Notice [2017] No. 37 ("**Public Notice No. 37**") issued by SAT. The PRC tax authorities would demand the withholding agent for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT. The penalty may be relieved if the indirect transfer has been voluntarily reported to the PRC tax authorities.

As disclosed in annual report 2017, the Group paid HK$70,000,000 (equivalent to RMB58,358,000) to the vendor during year 2017 and the Group has made provision for capital gain tax of RMB5,581,000 as at 31 December 2017.

On 25 June 2018, 61,437,500 consideration shares were issued upon the satisfaction of the target profit for the year ended 31 December 2017 pursuant to the terms of the sale and purchase agreement dated 10 October 2017. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities. The directors, after consulting the Group's PRC legal counsel, are of opinion that an additional provision of RMB387,000 based on the consideration shares issued to the vendor as of 30 June 2018 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low.

Apart from the above, the Group has no other material contingent liabilities as at 30 June 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Caution regarding forward-looking statements

This Management Discussion and Analysis contains forward-looking statements which reflect the Company's current beliefs with respect to future events and are based on information currently available to the Company. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. When reviewing the Company's forward-looking statements, investors and others should not place undue reliance on these forward-looking statements and should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update the forward-looking statements. The Company has an ongoing obligation to disclose material information as it becomes available.

### Review of results and operations

***Business Review***

The Company is an investment holding company, through its subsidiaries, providing (i) software sales and O2O consultation services by O2O solutions segment; (ii) digital advertising platform and related solutions by IDM solutions segment and (iii) marketing strategy and management of operation of online shop on e-commerce platform by E-Commerce solutions segment.

*(i) O2O solutions segment*

Shopping malls' clients in Shanghai are our main customers. O2O services provided tailormade social customer relationship management (CRM) platforms, big data management for retail sectors and maintenance service for voice recording system and call center system to our clients. The use of big data in the social CRM platforms assist clients in understanding consumers' behavior and personalizing customers' experience which make targeted promotion and marketing activities possible for clients. The operating results for O2O solutions segment for the six months ended 30 June 2018 (the "**Current Period**") continued to be under performing with the decline in sales order for social CRM and O2O marketing solutions services. Segment revenue for the Current Period recorded approximately RMB2,741,000, a drop by 64.6% from approximately RMB7,748,000 in the corresponding period of last year.

*(ii) IDM solutions segment*

IDM solutions segment provided digital advertisements and promotion articles for customers through our WeChat official account in Shanghai and WeChat Pay payment service in Hong Kong. In January 2018, the Group terminated its cooperative agreement with Tianjin China Resources Vanguard Limited due to uncertainty of income stream. During the Current Period, the Group through its subsidiary, Haihai Travel Cloud Limited ("**Haihai**") which is an authorized WeChat Pay service provider in Hong Kong, continued to assist merchants with WeChat Pay payment access, settlement and marketing campaigns that WeChat Pay offered. As at 30 June 2018, Haihai had been working with over 1,000 merchants who engaged in retailing businesses such as medical and pharmaceutical services, cosmetics and beauty, jewellery, apparel, food and beverage, so as to offer customers a more convenient and fast mobile payment option when making both online and offline purchase. Segment revenue for the Current Period recorded approximately RMB2,068,000, a significant increment of 91.5% from approximately RMB1,080,000 in the corresponding period of last year mainly due to the increase of commission income and related sales contributed by the WeChat Pay business of approximately RMB1,895,000 partially offset with the drop of revenue from digital advertisements and promotion articles of approximately RMB907,000.

*(iii) E-Commerce solutions segment*

The Group started to engage in E-Commerce solutions business through the completion of acquisition of LCE Group since 28 December 2017. On 25 June 2018, the Company issued consideration shares of 61,437,500 ordinary shares to the vendor following the satisfaction of profit guarantee of LCE Group for the year ended 31 December 2017 pursuant to the terms of the sale and purchase agreement dated 10 October 2017.

This segment began to contribute results to the Group in the Current Period. During the Current Period, the main service is to build and operate single and multi-brand e-commerce platforms and flagship stores on multiple online channels for clients and provide end-to-end e-commerce solutions that were tailored to meet clients' unique need. Segment revenue of approximately RMB5,749,000 for the Current Period mainly consisted of commission income of approximately RMB3,201,000 calculated based on a percentage of the gross merchandise value recorded in the online stores operated by the Group, consultation and maintenance service income of approximately RMB1,322,000 to cover the operating cost of running the online sales operations on behalf of clients and sales of goods through its own online shops and platform of approximately RMB1,011,000 and other services such as warehouse and logistics management and product photography.

***Financial Review***

*Revenue*

Revenue for the Current Period expanded by 19.6% from approximately RMB8,828,000 for the six months ended 30 June 2017 (the "**Corresponding Period**") to approximately RMB10,558,000. The increment was mainly contributed by the effect of E-Commerce solutions segment and growth of WeChat payment business in the Current Period partially offset with the decline of revenue in O2O solutions segment.

*Hardware, telecom and direct operation costs*

Hardware, telecom and direct operation costs consisted of hardware cost, software cost, installation cost, telecom operation cost and other direct costs. The balance for the Current Period dropped by 50.5% from approximately RMB4,860,000 in the Corresponding Period to approximately RMB2,407,000 mainly due to the decrease in hardware and software cost for O2O solutions segment and operation cost for IDM solutions segment.

*Employee benefits expenses*

Employee benefits expenses for the Current Period recorded a decrease of 19.9% from approximately RMB15,798,000 in the Corresponding Period to approximately RMB12,659,000 mainly due to the net effect of the reduced headcounts in the O2O solutions segment and IDM solutions segment and the increase in headcounts contributed from the E-Commerce solutions segment.

*Other operating expenses*

Other operating expenses mainly represented auditor's remuneration, legal and professional fee, business development costs, office rental expenses, travelling expenses and other office expenses. The amount for the Current Period dropped by 25.8% from approximately RMB9,207,000 in the Corresponding Period to approximately RMB6,828,000 mainly because of the full period effect of decrease in number of subsidiaries and branches of O2O solutions segment and IDM solutions segment.

*Amortisation of intangible assets*

Amortisation of intangible assets for the Current Period decreased by 31.4% from approximately RMB4,884,000 in the Corresponding Period to approximately RMB3,352,000. The amount for the Corresponding Period represented amortisation charge arising from internally generated software in O2O solutions segment while that for the Current Period mainly represented the amortisation charge arising from customer relationship of E-Commerce solutions segment.

*Reversal of provision for onerous contracts*

Reversal of provision for onerous contracts of approximately RMB50,575,000 for the Corresponding Period represented a non-recurring reversal of provision of commitment upon the termination of railway Wi-Fi operation.

*Provision for capital gain tax*

Provision for capital gain tax of approximately RMB300,000 was made for the Current Period when the Company allotted and issued 61,437,500 consideration shares to the vendor upon the satisfaction of profit guarantee of LCE Group for the year ended 31 December 2017 according to Public Notice No. 7 and Public Notice No. 37 issued by the SAT.

***Prospects***

Looking forward, it is expected that continuing and consistent growth of online shopping industry in the PRC and widespread use of mobile payment in Hong Kong can contribute prospective revenue stream to the Group. The Group will focus on integrating e-commerce, physical retail, logistics and mobile payment in order to enhance consumer shopping experience, expand consumer base and increasing profitability. In order to maximize returns to the shareholders, the Group, from time to time will strive to explore business expansion, technical cooperation and investment opportunities.

**Liquidity and financial resources**

As at 30 June 2018, the Group's cash and cash equivalents were approximately RMB26,206,000 (31 December 2017: approximately RMB20,532,000) and bank loans were RMB10,000,000 (31 December 2017: RMB10,500,000). All bank loans were denominated in Renminbi and repayable within one year. Bank loans of RMB2,000,000 (31 December 2017: RMB2,500,000) and RMB8,000,000 (31 December 2017: RMB8,000,000) were arranged at fixed interest rates and floating interest rates respectively. The bank loans were secured by charge over the land, building, investment properties and personal guarantee provided by a director of subsidiaries of the Company.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, retained profits and other reserves). As at 30 June 2018, the debt-to-adjusted capital ratio was 15.26% (31 December 2017: 20.44%). The decrease in debt-to-adjusted capital ratio during the Current Period resulted primarily from increase of cash and cash equivalents. It is the Group's strategy to keep the debt-to-adjusted capital ratio as low as feasible.

**Human resources**

As at 30 June 2018, the Group had a total of approximately 107 employees (As at 30 June 2017: approximately 82 employees). Employee benefits expenses (including directors' emoluments) for the period were approximately RMB12,659,000 (30 June 2017: approximately RMB15,798,000). Employees were remunerated based on their performance, experience and prevailing industry practice. Bonuses and rewards might also be awarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis. The Remuneration Committee of the Company's Board is responsible for overseeing and reviewing the remuneration packages of the directors and senior management.

**Foreign exchange exposure**

Major subsidiaries of the Group operate in the PRC and most of the transactions are denominated in RMB. As certain of the Group's monetary assets and liabilities are denominated in Hong Kong dollars ("**HK$**"), United States dollars ("**US$**") and Korean won ("**KRW**"), any significant exchange rate fluctuations of HK$, US$, and KRW against RMB may have financial impacts to the Group. Currently, the Group does not use any derivative financial instruments. Nevertheless, the Group will review the risk from time to time and take response measures if necessary.

**Pledged assets**

As at 30 June 2018, the following assets of the Group were pledged as securities, among others, for the banking facilities granted by its bankers:

(i) Charge over the building with carrying amount of approximately RMB5,448,000 (31 December 2017: approximately RMB5,646,000);

(ii) Charge over the prepaid land lease payments with carrying amount of approximately RMB2,090,000 (31 December 2017: approximately RMB2,118,000);

(iii) Charge over the investment properties with fair value of approximately RMB56,800,000 (31 December 2017: approximately RMB56,600,000); and

(iv) Personal guarantee provided by a director of subsidiaries of the Company.

**Contingent liabilities**

The Company acquired 51% equity interests in LCE Group from the vendor (a BVI company) on 28 December 2017. This transaction is regarded as indirect transfer of the PRC subsidiaries of LCE Group by non tax residents and fall within the scope as described in the Public Notice No. 7 issued by the SAT.

The capital gain derived from such indirect transfer will be subject to EIT and the withholding agent should withhold the EIT amount for settlement with the tax authorities pursuant to the Public Notice No. 37 issued by SAT. The PRC tax authorities would demand the withholding agent for the payment of EIT and impose penalty of 50% to 3 times of the unpaid EIT. The penalty may be relieved if the indirect transfer has been voluntarily reported to the PRC tax authorities.

As disclosed in annual report 2017, the Group paid HK$70,000,000 (equivalent to RMB58,358,000) to the vendor during year 2017 and the Group has made provision for capital gain tax of RMB5,581,000 as at 31 December 2017.

On 25 June 2018, consideration shares of 61,437,500 were issued upon the satisfaction of the target profit for the year ended 31 December 2017 pursuant to the terms of the sale and purchase agreement dated 10 October 2017. Neither the Group nor the vendor has reported the share transfer transaction or has settled the EIT to the PRC tax authorities. The directors, after consulting the Group's PRC legal counsel, are of opinion that an additional provision of RMB387,000 based on the consideration shares issued to the vendor as of 30 June 2018 should be made, and considered that the risk of having a penalty imposed by the PRC tax authorities is reasonably low.

Apart from the above, the Group has no other material contingent liabilities as at 30 June 2018.

## OTHER INFORMATION

### 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 2018.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### Material litigation

During the six months ended 30 June 2018, the Company was not involved in any litigation or arbitration of any material importance.

### Corporate governance

***Compliance with the Code on Corporate Governance Practices***

During the six months period ended 30 June 2018, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except in respect of a code provision providing for the roles of Chairman and Chief Executive Officer to be performed by different individuals. The deviation is deemed appropriate as the Company believes that the combination of the roles of Chairman and Chief Executive Officer promotes the efficient formulation and the implementation of the Company's strategies enabling the Group to grasp business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, a balancing mechanism exists so that the interests of the shareholders are adequately and fairly represented.

***Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")***

The Company has adopted a code of conduct regarding directors' securities transactions in terms as stringent as those set out in the Model Code. All Directors, following specific enquiries made by the Company, confirmed that they have complied with the required standard of dealings as set out therein throughout the six months period ended 30 June 2018.

### Audit committee

The Company set up an Audit Committee on 24 September 2002 with its written terms of reference being in compliance with the Rules set out in "A Guide for the Formation of An Audit Committee" issued by Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control systems of the Group. The Audit Committee along with the management have reviewed the accounting principles, standards and methods adopted by the Group, and have reviewed the unaudited Interim Financial Statements for the six months ended 30 June 2018.

**Publications of Interim Results and Interim Report**

This interim results announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk under the section "Latest Listed Company Information" and on the website of the Company at www.smartacgroup.com. The 2018 Interim Report containing all the information required under paragraphs 37 to 44 of Appendix 16 of the Rules Governing the Listing of Securities on the Exchange will be published on the same websites in due course.

By Order of the Board
**Smartac Group China Holdings Limited**
**Yang Xin Min**
*Chairman*

Hong Kong, 31 August 2018

*As at the date of this announcement, the Directors are Mr. Yang Xin Min and Mr. Yang Zhen as executive Directors, and Dr. Cheng Faat Ting Gary, Mr. Poon Lai Yin Michael and Mr. Yang Wei Qing as independent non-executive Directors.*