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)

2017 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 2017 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 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**8,828**	11,260
Fair value gain of investment properties		**700**	1,800
Other income	*3(a)*	**2,233**	2,366
Hardware, telecom and direct operation costs		**(4,860)**	(4,529)
Employee benefits expenses	*3(c)*	**(15,798)**	(18,348)
Other operating expenses		**(9,207)**	(10,146)
Depreciation	*3(d)*	**(1,296)**	(1,153)
Amortisation of intangible assets	*3(d)*	**(4,884)**	(4,729)
Reversal of provision for onerous contracts		**50,575**	–
Gain on disposal of a subsidiary		**2,695**	–
Profit/(loss) from operations		**28,986**	(23,479)
Finance costs	*3(b)*	**(430)**	(522)
Share of result of an associate		**(334)**	(452)
Profit/(loss) before tax	*3*	**28,222**	(24,453)
Income tax (expense)/credit	*4*	**(2,054)**	72
Profit/(loss) for the period		**26,168**	(24,381)
Other comprehensive income for the period, net of tax			
Items that may 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		**(2,741)**	439
Total comprehensive income for the period		**23,386**	(23,942)

	Note	Unaudited Six months ended 30 June **2017** ***RMB'000***	2016 *RMB'000*
Profit/(loss) for the period attributable to:			
Owners of the Company		**26,394**	(18,189)
Non-controlling interests		**(226)**	(6,192)
		26,168	(24,381)
Total comprehensive income for the period attributable to:			
Owners of the Company		**23,678**	(17,757)
Non-controlling interests		**(292)**	(6,185)
		23,386	(23,942)
EARNINGS/(LOSS) PER SHARE			
Basic earnings/(loss) per share (cents)	*6(a)*	**0.55**	(0.46)
Diluted earnings/(loss) per share (cents)	*6(b)*	**0.55**	(0.46)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Note	**Unaudited 30 June 2017** *RMB'000*	Audited 31 December 2016 *RMB'000*
Non-current assets			
Property, plant and equipment		**9,420**	10,728
Investment in an associate		**3,146**	3,480
Investment properties		**54,700**	54,000
Prepaid land lease payments		**2,090**	2,118
Goodwill		**5,695**	5,695
Intangible assets		**30,911**	38,920
Available-for-sale financial assets		**1,801**	–
		107,763	114,941
Current assets			
Prepaid land lease payments		**56**	56
Other investments		**–**	4,000
Inventories		**1,627**	1,339
Trade and other receivables	*7*	**46,449**	27,180
Due from a related party		**495**	–
Pledged bank deposits		**592**	592
Bank and cash balances		**67,197**	99,953
		116,416	133,120
Current liabilities			
Trade and other payables	*8*	**34,690**	36,452
Provision for onerous contracts		**–**	50,575
Due to directors		**285**	248
Bank loans	*9*	**17,500**	15,000
Current tax liabilities		**89**	92
		52,564	102,367

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Net current assets		**63,852**	30,753
Total assets less current liabilities		**171,615**	145,694
Non-current liabilities			
Deferred tax liabilities		**10,261**	8,207
		10,261	8,207
NET ASSETS		**161,354**	137,487
Capital and reserves			
Share capital	*11*	**214,067**	214,067
Reserves		**(98,096)**	(121,774)
Equity attributable to owners of the Company		**115,971**	92,293
Non-controlling interests		**45,383**	45,194
TOTAL EQUITY		**161,354**	137.487

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2017

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**

Unaudited
Six months ended 30 June 2016
Attributable to owners of the Company

	Share capital *RMB'000*	Share premium account *RMB'000*	Statutory reserve *RMB'000*	Share-based payment 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 2016	178,589	1,038,509	172	1,336	(96,432)	(9,619)	(8,385)	(941,869)	162,301	59,055	221,356
Total comprehensive income for the period	–	–	–	–	432	–	–	(18,189)	(17,757)	(6,185)	(23,942)
Deemed acquisition of NCI	–	–	–	–	–	–	–	(103)	(103)	103	–
Lapse of share options granted in prior years	–	–	–	(1,336)	–	–	–	1,336	–	–	–
At 30 June 2016	178,589	1,038,509	172	–	(96,000)	(9,619)	(8,385)	(958,825)	144,441	52,973	197,414

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Net cash used in operating activities	**(37,115)**	(36,577)
Net cash generated from/(used in) investing activities	**5,394**	(19,145)
Net cash generated from/(used in) financing activities	**2,070**	(9,889)
Effect of foreign exchange rate changes	**(3,105)**	140
Net decrease in cash and cash equivalents	**(32,756)**	(65,471)
Cash and cash equivalents at 1 January	**99,953**	95,515
Cash and cash equivalents at 30 June	**67,197**	30,044

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 comprise the Company and its subsidiaries (together referred to as the "**Group**") and have been prepared in accordance with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting promulgated by the International Accounting Standards Board 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 do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), and should be read in conjunction with the Group's annual financial statements as at 31 December 2016. The Interim Financial Statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements.

The Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. The directors anticipate that the new and revised IFRSs will be adopted by the Group when they become effective. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

The preparation of the Interim Financial Statements in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date process. Actual results may differ from these estimates.

The Interim Financial Statements have been prepared under the historical cost convention. Items included in the financial statements of each entity comprising the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("**functional currency**"). For the purposes of presenting the Interim Financial Statements, the Group adopted Renminbi as its presentation currency, rounded to the nearest thousand.

2. 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 two 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

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		Total Unaudited Six months ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**7,748**	10,150	**1,080**	1,110	**8,828**	11,260
Segment profit/(loss) before tax	**(9,217)**	(7,452)	**41,697**	(13,740)	**32,480**	(21,192)
Interest revenue	**3**	13	**6**	3	**9**	16
Interest expense	**430**	522	**–**	–	**430**	522
Depreciation and amortisation	**5,782**	5,556	**374**	355	**6,156**	5,911

	O2O solutions segment		IDM solutions segment		Total	
	Unaudited 30 June 2017	Audited 31 December 2016	**Unaudited 30 June 2017**	Audited 31 December 2016	**Unaudited 30 June 2017**	Audited 31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets	**116,359**	121,774	**33,626**	35,717	**149,985**	157,491
Segment liabilities	**(34,779)**	(29,734)	**(26,366)**	(79,007)	**(61,145)**	(108,741)
Investment in an associate	**–**	–	**3,146**	3,480	**3,146**	3,480

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

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Total revenue	**8,828**	11,260
Profit or loss		
Total profit/(loss) of reportable segments	**32,480**	(21,192)
Unallocated amounts:		
Unallocated head office and corporate expenses	**(4,258)**	(3,261)
Consolidated profit/(loss) before tax	**28,222**	(24,453)

Reconciliations of reportable segments assets and liabilities:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Assets		
Total assets of reportable segments	**149,985**	157,491
Unallocated amounts:		
Unallocated head office and corporate assets	**74,194**	90,570
Consolidated total assets	**224,179**	248,061
Liabilities		
Total liabilities of reportable segments	**61,145**	108,741
Unallocated amounts:		
Unallocated head office and corporate liabilities	**1,680**	1,833
Consolidated total liabilities	**62,825**	110,574

(iii) Geographical information:

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	
	2017 *RMB'000*	2016 *RMB'000*
Revenue		
The People's Republic of China ("**PRC**") except Hong Kong	**8,303**	9,593
Hong Kong	**396**	1,117
Others	**129**	550
Consolidated total revenue	**8,828**	11,260

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.

3. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after (crediting)/charging:

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
(a) Other income:		
Bank interest income	**(9)**	(16)
Government grants	**(373)**	(94)
Net foreign exchange gain	**(12)**	(442)
Gross rental income from investment properties	**(1,426)**	(966)
Value-added tax refund	**(100)**	(535)
Others	**(313)**	(313)
	(2,233)	(2,366)
(b) Finance costs:		
Interest expenses on bank loans wholly repayable within five years	**430**	522
(c) Employee benefits expenses:		
Salaries, bonus and allowance	**13,791**	16,260
Retirement benefit scheme contributions	**2,007**	2,088
	15,798	18,348
(d) Other items:		
Amortisation		
– prepaid land lease payments	**28**	28
– intangible assets	**4,884**	4,729
Depreciation	**1,296**	1,153
Cost of inventories sold	**659**	123
Operating lease charges in respect of the office premises in Hong Kong and leasehold land in the PRC	**1,370**	2,306

4. INCOME TAX (EXPENSE)/CREDIT

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

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current tax credit – Hong Kong profits tax		
Provision for the period	**–**	–
Over provision in prior year	**–**	86
Current tax expense – PRC enterprise income tax ("PRC EIT")		
Provision for the period	**–**	–
Under provision in prior year	**–**	(14)
	–	72
Deferred tax expense		
Provision for the period	**(2,054)**	–
Income tax (expense)/credit	**(2,054)**	72

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 2017 and 2016.

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

The new PRC EIT law (the "**New Tax Law**") that was passed by the Tenth National People's Congress on 16 March 2007 introduced various changes which included the unification of the EIT for domestic and foreign enterprises at 25%. The New Tax Law was effective from 1 January 2008.

蘇州盈聯智能科技股份有限公司 (Smartac Solutions (Suzhou) Limited ("**SZYL**")) was recognised as an advance technology enterprise (高新技術企業) in 2011 and was entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2011. In order to enjoy the preferential rate of 15%, SZYL was required to apply for renewal every three years from first year of approval. In 2014, SZYL has renewed its status and was entitled the preferential rate of 15% for the years ended 31 December 2014, 2015 and 2016. The EIT rate was 25% from the year ending 31 December 2017 onwards.

5. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: nil).

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the period attributable to owners of the Company of approximately RMB26,394,000 (2016: loss RMB18,189,000) and the weighted average number of ordinary shares of 4,762,033,424 (2016: 3,968,361,424) in issue during the period.

(b) Diluted earnings/(loss) per share

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

The exercise of the Group's outstanding share options for the period ended 30 June 2016 would be anti-dilutive for loss per share.

7. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2017 ***RMB'000***	Audited 31 December 2016 *RMB'000*
Trade receivables	**5,140**	5,709
Less: Allowance	**(777)**	(770)
	4,363	4,939
Advance payments to suppliers	**272**	404
Deposits	**27,419**	7,310
Prepayments	**862**	1,305
Other receivables	**13,533**	13,222
	46,449	27,180

Ageing analysis

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 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Up to 3 months	**3,174**	3,603
3 to 6 months	**38**	525
6 months to 1 year	**649**	682
Over 1 year	**502**	129
	4,363	4,939

8. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade payables	**2,937**	3,515
Receipts in advance from customers	**2,952**	747
Payables for construction costs and purchase of property, plant and equipment	**2,904**	2,658
Other payables	**24,923**	26,269
Accrued expenses	**974**	3,263
	34,690	36,452

Ageing analysis

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 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Up to 3 months	**849**	1,772
3 to 6 months	**32**	1,577
6 months to 1 year	**1,608**	–
Over 1 year	**448**	166
	2,937	3,515

9. BANK LOANS

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

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Secured bank loans repayable within one year	**17,500**	15,000

The Group's bank loans are repayable within one year. Bank loan of RMB2,500,000 is arranged at fixed interest rate and exposes the Group to fair value interest rate risk while amount of RMB15,000,000 bank loans are arranged at floating interest rates, thus exposing the Group to cash flow interest rate risk.

As at 30 June 2017, the bank loans 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 the Company.

10. 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 2017 and the year ended 31 December 2016, no options were granted under the New Scheme. No options were outstanding as at 30 June 2017 and 31 December 2016.

11. SHARE CAPITAL

	The Company	
	Number of shares	Nominal value of shares *HK$'000*
Authorised:		
Ordinary shares of HK$0.05 each		
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	**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 2016	3,968,361,424	198,417	178,589
Issue of shares upon placement	793,672,000	39,684	35,478
At 31 December 2016, 1 January 2017 and 30 June 2017	**4,762,033,424**	**238,101**	**214,067**

12. SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 5 January 2017, the Group through its non-wholly owned subsidiary entered into a conditional sale and purchase agreement with a director of a non-wholly owned subsidiary, Evolve Consulting Limited ("**Evolve**"), to dispose of the Group's entire 51% equity interests in Evolve and its subsidiary, which engaged in the provision of IT related services, for a cash consideration of HK$3,950,000 (equivalent to approximately RMB3,553,000) (the "**Disposal**"). As at 30 June 2017, the Group held 12.75% of the equity interests in Evolve and its subsidiary and the Disposal will be completed by 31 December 2017.

On 10 June 2017, the Company has entered into a memorandum of understanding in respect of the proposed acquisition (the "**Proposed Acquisition**"), details of which are set out in the announcement of the Company dated 11 June 2017. The Company is in the course of conducting due diligence review on the target group and will commence negotiation on the terms and conditions of the formal agreement in relation to the Proposed Acquisition. Further announcement in respect of the Proposed Acquisition will be made by the Company in the event that any formal agreement has been signed.

Saved for the above, the Group did not have any other significant investments, material acquisitions and disposals during the period.

13. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 30 June 2017, SZYL entered into a sale and purchase agreement with a connected person for the disposal of 100% equity interest of its wholly owned subsidiary, Lucy Robotics (Suzhou) Limited for a cash consideration of RMB500,000 and a contingent consideration of RMB2,000 per robot sold by the purchaser in the 3-year period from year 2017 to year 2020. The transaction was completed on 14 July 2017.

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

14. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2017 (31 December 2016: nil).

15. COMPARATIVE FIGURES

The expenses presented in the condensed consolidated statement of profit or loss and other comprehensive income have been changed from the classification by function to classification by nature as the directors consider that the new presentation is more appropriate to the financial statements following the Group's current business.

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

During the period under review, the Group continued to utilize its technical strength and experience in software development and provision of O2O solutions through design, construction, maintenance and operation of Wi-Fi network to a variety of business customers.

O2O solutions segment

The Group continued to deliver O2O services to various clients such as shopping malls, retail shops and exhibition centres by providing social customer relationship management platforms, big data management and maintenance service for effective implementation of more targeted promotion and marketing activities to improve business performance. The Group also helped the clients to analyse customers' consumption habits from the data captured in the social customer relationship management platforms so as to help its clients to design more effective marketing strategy to attract customers in order to drive sales. Besides, the Group also provided maintenance services for the voice recording system, call center system and social customer relationship management platforms in the period.

IDM solutions segment

The Group continued to provide free Wi-Fi access to users in major business areas in Shanghai and in the designated stores of Tianjin China Resources Vanguard Limited. Besides, the Group also continued to develop the WeChat payment business in Hong Kong to provide services for retail and catering businesses in the application and technological docking for WeChat payment service and application for WeChat public accounts during the period. However, due to high operating costs and low revenue generated, the Group has terminated the Wi-Fi operations for railways under Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration in late of June 2017.

Financial Review

Revenue

For the six months ended 30 June 2017, the Group's revenue was approximately RMB8,828,000, a 21.6% decline from the same period of last year. The decrease was mainly due to the drop of revenue in O2O solutions segment upon disposal of non-wholly owned subsidiaries in the O2O solutions segment in November 2016 and January 2017.

Hardware, telecom and direct operation costs

Hardware, telecom and direct operation costs consisted of hardware cost, software cost, installation cost, telecom operation cost, advertising and promotion cost and other direct costs incurred for O2O solutions segment and IDM solutions segment. The amount increased by 7.3% to RMB4,860,000 from the same period of last year mainly due to the full period effect of the service cost paid for Shanghai Wi-Fi operations and system development cost of WeChat payment platform in the current period.

Employee benefits expenses

Employee benefits expenses decreased by 13.9% to RMB15,798,000 from the same period of last year mainly due to drop of headcounts upon disposal of non-wholly owned subsidiaries in the O2O solutions segment and termination of railway Wi-Fi operations in the IDM 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 dropped by 9.3% to RMB9,207,000 from the same period of last year was mainly due to decrease in travelling expenses and office expenses with effective cost control imposed by the Group in the current period.

Reversal of provision for onerous contracts

Provision for onerous contracts of RMB50,575,000 made for the year ended 31 December 2016 represented the commitment for the long-term prepayments regarding the operation of wireless network at railway stations in the IDM solutions segment for the forthcoming years. Upon the signing of termination agreements by the Group in late of June 2017 to terminate the Wi-Fi operations for railways under Guangzhou Railway (Group) Corporation, Beijing Railway Administration and Lanzhou Railway Administration, the commitment was released and therefore the provision was reversed in the current period.

Income tax (expense)/credit

Income tax expense of RMB2,054,000 represented deferred tax expense recognised for the current period. The balance increased significantly from the same period of last year due to the effect of increase in EIT rate of SZYL from 15% to 25% in the current period as SZYL was no longer entitled to enjoy an income tax concession at preferential rate of 15%.

Property, plant and equipment

Property, plant and equipment decreased by 12.2% to RMB9,420,000 from 31 December 2016 mainly due to depreciation expenses incurred with no significant additions or disposals in the current period.

Intangible assets

Intangible assets represented software development costs for the self-developed software of O2O solutions segment. The balance declined by 20.6% to RMB30,911,000 from 31 December 2016 mainly due to amortisation expenses of RMB4,884,000 and write-off of intangible assets of RMB3,125,000 in the current period.

Trade and other receivables

Trade and other receivables increased by RMB19,269,000 from RMB27,180,000 as at 31 December 2016 to RMB46,449,000 as at 30 June 2017 mainly because of earnest money of approximately RMB21,752,000 (equivalent to HK$25,000,000) paid for the Proposed Acquisition upon signing of memorandum of understanding by the Company with a vendor on 10 June 2017.

Prospects

Looking ahead, the Group will continue to provide tailor-made solutions to customers' Wi-Fi systems. Leveraging on the scene-based business intelligence developed by the Group and the integration of big data and cloud computing technologies, the Group is advancing towards the target of becoming the leader in provision of integrated solutions and platform in the O2O and big data market. Besides, The Group will continue to actively explore strategic opportunities to expand its business through various means such as technological cooperation, joint ventures and merger and acquisition.

Liquidity and financial resources

As at 30 June 2017, the Group's bank and cash balances were approximately RMB67,197,000 (31 December 2016: approximately RMB99,953,000) and bank loans were RMB17,500,000 (31 December 2016: RMB15,000,000). All bank loans were denominated in Renminbi and repayable within one year. Bank loans of RMB2,500,000 (31 December 2016: RMB3,000,000) and RMB15,000,000 (31 December 2016: RMB12,000,000) 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 the Company.

As disclosed in 2016 annual report, the Company had completed the placing of 793,672,000 ordinary shares on 15 December 2016 which generated a net proceed of approximately RMB72,193,000 (equivalent to approximately HK$80,750,000), which was mainly used as general working capital for existing business and for investment of new business in the upstream and downstream of the Group's principal business if opportunities arise.

As at 30 June 2017, the aforesaid net proceed has been applied as follows:

		Intended use of proceeds *HK$'000*	Actual use of proceeds *HK$'000*
(i)	General working capital for existing business	80,750 (for both (i) and (ii))	9,000
(ii)	Investment of new business in the upstream and downstream of the Group's principal business		25,000
(iii)	Unutilised balance	–	54,850
Total		80,750	80,750

The above mentioned uses are consistent with the intended use of proceeds as disclosed in 2016 annual report. The Group will constantly evaluate its business plan and may change or modify plan against the changing market condition to attain sustainable business growth of the Group. All the unutilised balances have been placed in licensed banks in Hong Kong and the PRC. The unutilised balances will be applied by the Company for the Proposed Acquisition (should the Proposed Acquisition materialized) and for general working capital of the existing business.

The Group monitors capital on the basis of the net 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 attributable to the owners of the Company. As at 30 June 2017, since the cash and cash equivalents was over total debts, the net debt-to-adjusted capital ratio was not applicable (31 December 2016: 2.52%). It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible.

Human resources

As at 30 June 2017 the Group had a total of approximately 82 employees (As at 30 June 2016: approximately 198 employees). Employee benefits expenses (including directors' emoluments) for the period were approximately RMB15,798,000 (30 June 2016: approximately RMB18,348,000). 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.

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 2017, 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 RMB5,848,000 (31 December 2016: approximately RMB6,042,000);

(ii) Charge over the prepaid land lease payments with carrying amount of approximately RMB2,146,000 (31 December 2016: approximately RMB2,174,000);

(iii) Charge over the investment properties with fair value of approximately RMB54,700,000 (31 December 2016: approximately RMB54,000,000); and

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

Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities (31 December 2016: nil).

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 2017.

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 2017, 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 2017, 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 2017.

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 2017.

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 and on the website of the Company at www.smartacgroup.com. The 2017 Interim Report containing all the information required under paragraphs 37 to 44 of Appendix 16 of the Listing Rules 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 2017

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