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透云科技
Ty. Technology

China Touyun Tech Group Limited

中國透雲科技集團有限公司

(Incorporated in Bermuda with limited liability)

Website: www.chinatouyun.com.hk

(Stock Code: 1332)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “Board”) of China Touyun Tech Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue from treasury investment			
Fair value (losses)/gains on financial assets at fair value through profit or loss held for trading, net		(8,255)	19,951
Interest income from money lending business		164	–
Dividend income from financial assets at fair value through profit or loss held for trading		166	1,069
Revenue from sales of goods and services rendered	4	99,285	160,628
Cost of sales		(60,588)	(111,412)
Gross profit		38,697	49,216
Impairment loss of goodwill		–	(57,204)
Impairment loss of trade receivable, net		(1,646)	(1,309)
Other income, gains and losses, net	5	(7,623)	(21,934)
Selling and distribution expenses		(7,786)	(11,331)
Administrative expenses		(55,460)	(79,586)
Finance costs	6	(16,505)	(11,155)
Share of result of an associate		(24,458)	44,611
Loss before tax	7	(82,706)	(67,672)
Income tax expense	8	(6)	(1,205)
Loss for the period		(82,712)	(68,877)

	Six months ended 30 June	
	2020	2019
<i>Note</i>	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss attributable to		
— Owners of the Company	(82,221)	(70,955)
— Non-controlling interests	(491)	2,078
	<u>(82,712)</u>	<u>(68,877)</u>
Loss per share attributable to owners of the Company		(Restated)
— Basic and diluted	HK(3.19) cents	HK(2.90) cents
	<u>HK(3.19) cents</u>	<u>HK(2.90) cents</u>
Loss for the period	<u>(82,712)</u>	<u>(68,877)</u>
Other comprehensive loss		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>(4,070)</u>	<u>(2,202)</u>
Other comprehensive loss for the period, net of tax	<u>(4,070)</u>	<u>(2,202)</u>
Total comprehensive loss for the period	<u>(86,782)</u>	<u>(71,079)</u>
Total comprehensive loss attributable to:		
— Owners of the Company	(86,291)	(73,157)
— Non-controlling interests	(491)	2,078
	<u>(86,782)</u>	<u>(71,079)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
<i>Non-current assets</i>			
Property, plant and equipment	11(a)	43,021	29,264
Right-of-use assets	11(b)	28,677	23,427
Intangible assets		7,259	10,741
Goodwill	12	–	–
Interests in an associate		184,748	209,206
Financial assets at fair value through profit or loss	13	196,312	249,002
		460,017	521,640
<i>Current assets</i>			
Inventories		21,162	29,571
Trade and bills receivables	14	45,223	54,763
Prepayments, deposits and other receivables		10,758	9,895
Loan and interest receivables	15	20,164	71,250
Financial assets at fair value through profit or loss	13	192,535	158,825
Cash and cash equivalents		117,810	40,457
		407,652	364,761
<i>Current liabilities</i>			
Trade payables	16(a)	22,285	32,154
Other payables and accruals	16(b)	17,711	22,612
Contract liabilities		23,171	24,239
Lease liabilities		16,611	13,929
Amount due to a director	16(c)	2,900	–
Other borrowings		11,796	11,596
Tax payable		1,524	1,930
Convertible bond	17	184,439	225,236
		280,437	331,696
Net current assets		127,215	33,065
Total assets less current liabilities		587,232	554,705

		30 June 2020	31 December 2019
	<i>Note</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
<i>Non-current liabilities</i>			
Lease liabilities		<u>12,751</u>	<u>10,138</u>
		<u>12,751</u>	<u>10,138</u>
Net assets		<u>574,481</u>	<u>544,567</u>
Equity			
Equity attributable to owners of the Company			
Share capital	18	108,784	97,973
Reserves		<u>434,162</u>	<u>443,232</u>
		542,946	541,205
Non-controlling interests		<u>31,535</u>	<u>3,362</u>
Total equity		<u>574,481</u>	<u>544,567</u>

Notes:

1. CORPORATE INFORMATION

China Touyun Tech Group Limited (the “Company”) was incorporated in Bermuda under the Companies Act 1981 of Bermuda as an exempted company with limited liability on 24 October 2011. The principal place of business of the Company is located at 12th Floor, Kwan Chart Tower, 6 Tonnochy Road, Wan Chai, Hong Kong.

During the period, the principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) are (i) provision of QR codes on product packaging and solutions and advertising display services; (ii) the manufacture and sale of packaging products; (iii) investments and trading in securities and money lending; and (iv) production and sale of chlamydomonas reinhardtii products.

During the period and pursuant to the Company’s announcement dated 6 January 2020, 21 February 2020 and 14 May 2020, an indirectly wholly-owned subsidiary was established in the People’s Republic of China (the “PRC”) in March 2020 for the purpose of engaging in the chlamydomonas reinhardtii, micro-algae powder and related products business. The construction of fermentation and related facilities is under progress for the production of micro-algae powder and related products in Shanxi, the People’s Republic of China. It is expected that the Group will commence the production of chlamydomonas reinhardtii, micro-algae powder and related products in 2021.

The construction of the fermentation and related facilities is the first step in the Group’s diversification into chlamydomonas reinhardtii, micro-algae powder and related products business. Given the trend of health food in recent years, the Group considers the investment in chlamydomonas reinhardtii, micro-algae powder business is a good opportunity for the Group to diversify its income base.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

These unaudited interim condensed consolidated financial statements have been prepared under the historical cost conversion, except for equity investments classified as financial assets at fair value through profit or loss and derivative component of convertible bond, which have been measured at fair value. These unaudited interim condensed consolidated financial statements are presented in Hong Kong dollar (“HK\$”), which is the Company’s functional currency, and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies and basis of preparation adopted in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those adopted in the Group’s annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong, except for the adoption of the new and amendments to HKFRSs which are mandatory effective for the annual period beginning on or after 1 January 2020, and early adoption of Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”.

Except as described below, the application of Amendments to References to the Conceptual Framework in HKFRS standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these unaudited interim condensed consolidated financial statements.

2.1 Impacts and accounting policies on early application of Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”

2.1.1 Accounting policies

Leases — Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments original due on or before 30 June 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 “Leases” if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in profit or loss in the period in which the event occurs or condition that triggers the payment.

2.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of HK\$1,179,000 in profit or loss for the current interim period.

Significant changes in significant judgements and key sources of estimation uncertainty

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the last financial statements.

3. OPERATING SEGMENT INFORMATION

The Group has four reportable operating segments. The segments are managed separately as each business offers different products or provides different services and requires different business strategies.

The following summary describes the operations in each of the Group's reportable segments:

QR code business segment	—	Provision of QR code on product packaging and solutions and advertising display services
Packaging products segment	—	Manufacture and sale of watch boxes, jewellery boxes, eyewear cases, bags and pouches and display units
Treasury investment segment	—	Investments and trading in securities and money lending
Chlamydomonas Reinhardtii products business	—	Production and sale of chlamydomonas reinhardtii, micro-algae powder and related products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that finance costs, share of result of an associate and head office and corporate income and expenses are excluded from such measurement.

There was no inter-segment sale or transfer during the period (six months ended 30 June 2019: Nil). Corporate and unallocated income, gains and losses and expenses are not allocated to the operating segments as they are not included in the measure of the segments' results that is used by the chief operating decision makers for assessment of segment performance.

	For the six months ended 30 June									
	QR code business		Packaging products		Treasury investment		Chlamydomonas Reinhardtii products business		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Group's revenue	34,071	29,069	65,214	131,559	-	-	-	-	99,285	160,628
Fair value (losses)/gains on financial assets at fair value through profit or loss ("FVTPL") held for trading, net	-	-	-	-	(8,255)	19,951	-	-	(8,255)	19,951
Interest income from money lending business	-	-	-	-	164	-	-	-	164	-
Dividend income from financial assets at FVTPL held for trading	-	-	-	-	166	1,069	-	-	166	1,069
Segment revenue	<u>34,071</u>	<u>29,069</u>	<u>65,214</u>	<u>131,559</u>	<u>(7,925)</u>	<u>21,020</u>	<u>-</u>	<u>-</u>	<u>91,360</u>	<u>181,648</u>
Segment results	<u>(7,961)</u>	<u>(81,496)</u>	<u>(1,341)</u>	<u>7,109</u>	<u>(7,941)</u>	<u>21,000</u>	<u>(2,914)</u>	<u>-</u>	<u>(20,157)</u>	<u>(53,387)</u>
Corporate and unallocated income, gains and losses									(10,034)	(21,762)
Corporate and unallocated expenses									(11,552)	(25,979)
Share of result of an associate									(24,458)	44,611
Finance costs									(16,505)	(11,155)
Loss before tax									<u>(82,706)</u>	<u>(67,672)</u>

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, value of services rendered, net fair value gains and losses on financial assets at fair value through profit or loss, interest income from money lending business and dividend income on investment portfolio.

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Manufacturing and sales of packaging products	65,214	131,559
Provision of QR code packaging products and solutions	33,720	28,364
Advertising display service income	351	705
	<u>99,285</u>	<u>160,628</u>
Fair value (losses)/gains on financial assets at fair value through profit or loss held for trading, net*	(8,255)	19,951
Interest income from money lending business	164	–
Dividend income from financial assets at fair value through profit or loss held for trading	166	1,069
	<u>91,360</u>	<u>181,648</u>

* The gross proceeds from disposal of listed equity investments classified as financial assets at fair value through profit or loss held for trading for the six months ended 30 June 2020 were approximately HK\$2,163,000 (six months ended 30 June 2019: Nil).

The revenue within the scope of HKFRS 15 for the six months ended 30 June 2020 were categorised by timing of revenue recognition at (i) a point in time of HK\$98,934,000 (six months ended 30 June 2019: HK\$157,824,000) and (ii) over time of HK\$351,000 (six months ended 30 June 2019: HK\$2,804,000).

5. OTHER INCOME, GAINS AND LOSSES, NET

An analysis of the Group's other income, gains and losses, net is as follows:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Bank interest income	49	85
Imputed interest income from note receivable	–	9,452
Gain on partial redemption of note receivable	–	2,108
Foreign exchange differences, net	319	402
Gain on disposal of property, plant and equipment	772	1
Fair value gain on embedded derivative in convertible bond	–	2,091
Fair value change on financial assets at fair value through profit or loss (not held for trading), net	(10,570)	(35,902)
Covid-19-related rent concessions	1,179	–
Government grant	711	–
Others	(83)	(171)
	<u>(7,623)</u>	<u>(21,934)</u>

During the current interim period, the Group recognised concessions of HK\$1,890,000 in respect of Covid-19-related subsidies, of which HK\$711,000 is related to Employment Support Scheme provided by The Hong Kong Special Administrative Region and HK\$1,179,000 is related to rent concessions provided by the landlord.

6. FINANCE COSTS

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Interest expense on convertible bond	15,351	10,522
Interest on lease liabilities	602	633
Interest on other borrowings	552	–
	<u>16,505</u>	<u>11,155</u>

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	2,569	3,014
Depreciation of right-of-use assets	8,621	7,605
Amortisation of intangible assets	3,228	8,361
Employee benefits expenses (including directors' remuneration):		
Salaries, wages and other benefits	43,389	59,775
Pension scheme contributions	1,034	4,834
Equity-settled share based payments	1,675	15,549
	<u>46,098</u>	<u>80,158</u>

8. INCOME TAX

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, for the six months ended 30 June 2020 and 30 June 2019, the Hong Kong Profits Tax of Qualipak Manufacturing Limited, a subsidiary of the Group, is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000 and profits of other group entities in Hong Kong are taxed at 16.5%.

In accordance with the PRC Corporate Income Tax Law, the PRC Corporate Income Tax is calculated at a statutory rate of 25% (six months ended 30 June 2019: 25%) of the assessable profits except for 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co. Ltd.*) ("SHTY") and 透雲物聯網科技(北京)有限公司 (TY Technology (Beijing) Co. Ltd.*), ("BJTY"), two indirect wholly-owned subsidiaries of the Group. Both companies obtained the High-new Technology Certificate for the years from 2017 to 2020 and were entitled to a tax rate of 15%.

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the period	—	713
Current tax — PRC Corporate Income Tax	<u>6</u>	<u>548</u>
	6	1,261
Deferred tax	<u>—</u>	<u>(56)</u>
	<u>6</u>	<u>1,205</u>

* For identification purposes only

9. DIVIDEND

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

10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic and diluted loss per share attributable to owners of the Company for the six months ended 30 June 2020 and 2019 are based on the following data:

	Six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Loss for the period attributable to owners of the Company	<u>(82,221)</u>	<u>(70,955)</u>
	'000	'000 (Restated)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>2,574,810</u>	<u>2,449,328</u>

The weighted average number of ordinary shares for the purpose of calculation of basic loss per share for the six months ended 30 June 2020 has included the effect of share subscription on 13 March and 14 April 2020 as disclosed in note 18.

The weighted average number of ordinary shares for the purpose of calculation of basic loss per share for the six months ended 30 June 2019 has been retrospectively adjusted to reflect the share consolidation in August 2019.

The computation of diluted loss per share for the six months ended 30 June 2020 does not assume the conversion of the Company's outstanding convertible bond and the exercise of share options since their assumed exercise would result in a decrease in loss per share.

11. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

(a) Property, plant and equipment

During the six months ended 30 June 2020, the Group incurred construction cost of HK\$18,602,000 (six months ended 30 June 2019: Nil) primarily related to the production plant for chlamydomonas reinhardtii, micro-algae powder and related products, and HK\$1,252,000 (six months ended 30 June 2019: HK\$2,897,000) for acquisition of property, plant and equipment. Property, plant and equipment with aggregate carrying amount of HK\$122,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$3,000).

(b) Right-of-use assets

During the current interim period, the Group entered into several new lease agreements with lease terms ranged from 1 to 3 years. On lease commencement, the Group recognised right-of-use assets of HK\$14,199,000 (six months ended 30 June 2019: HK\$27,604,000) and lease liabilities of HK\$14,199,000 (six months ended 30 June 2019: HK\$27,604,000).

During the interim period, lessors of the relevant offices provided rent concessions to the Group through rent reductions ranging from 17% to 100% over 1 to 3 months.

These rent concessions occurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in HKFRS 16.46(b), and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. During the current interim period, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK\$1,179,000 were recognised as negative variable lease payments.

12. GOODWILL

	<i>HK\$'000</i>
Cost	
At 1 January 2019, 31 December 2019 (audited) and 30 June 2020 (unaudited)	569,947
Accumulated impairment losses	
At 1 January 2019	405,245
Impairment losses	164,702
At 31 December 2019 (audited) and at 30 June 2020 (unaudited)	569,947
Net carrying amount	
At 30 June 2020 (unaudited)	–
At 31 December 2019 (audited)	–

The goodwill is allocated to (1) a group of subsidiaries engaged in the provision of QR codes on product packaging and solutions and advertising display services acquired in August 2016 (the “Apex Group”) and (2) BJTY, a subsidiary of the Group engaged in the provision of QR code on product packaging acquired in March 2017, (collectively refer as the “QR Code CGUs”). The QR Code CGUs that comprise the Apex Group and BJTY represented the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment presented in note 3.

The carrying amount of goodwill was fully impaired during the year ended 31 December 2019 and therefore, no carrying amount of goodwill is allocated to the group of QR Code CGUs as at 30 June 2020 and 31 December 2019.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Non-current assets		
Unlisted equity investments, at fair value (<i>Note (a)</i>)		
Company A	102,664	100,618
Company B	1,368	4,025
Company C	44,403	37,360
Company D (<i>Note (b)</i>)	47,877	59,275
Company E (<i>Note (c)</i>)	–	47,724
	196,312	249,002
Current assets		
Listed equity investments held for trading, at fair value	150,415	158,825
Unlisted equity investment, at fair value (<i>Note (a)</i>)		
Company E (<i>Note (c)</i>)	42,120	–
	192,535	158,825

Notes:

- (a) The unlisted equity investments relate to investments in five private entities, which were intended to hold for long-term strategic purpose at the time of acquisition. The five private entities are engaged in the provision of advisory and financial services, property holding, investment in securities trading and money lending.
- (b) As at 30 June 2020, the shareholding was diluted to 12.12% as Company D issued additional shares to another investor during the period ended 30 June 2020.
- (c) As at 30 June 2020, the shareholding was diluted to 8.0% as Company E issued additional shares to another investor during the period ended 30 June 2020.

On 4 August 2020, the Group entered into a sales and purchase agreement to dispose of 8.0% interests in Company E at a cash consideration of HK\$42,120,000.

14. TRADE AND BILLS RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade and bills receivables	49,258	58,855
Less: Impairment	(4,035)	(4,092)
	<u>45,223</u>	<u>54,763</u>

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period generally ranges from 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	24,612	32,151
1 to 2 months	8,437	12,904
2 to 3 months	3,764	1,617
Over 3 months	8,410	8,091
	<u>45,223</u>	<u>54,763</u>

15. LOAN AND INTEREST RECEIVABLES

The exposure of the Group's fixed-rate loan receivable to interest rate risks and their contractual maturity dates are as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Fixed-rate loan receivable		
Within one year	<u>20,164</u>	<u>71,250</u>

The ranges of effective interest rates which are equal to contractual interest rates on the Group's loan receivable is as follows:

	30 June 2020	31 December 2019
Effective interest rate		
Fixed-rate loan receivable	<u>6%</u>	<u>10%</u>

16. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS/AMOUNT DUE TO A DIRECTOR

(a) Trade payables

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

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	10,444	22,564
1 to 2 months	3,415	3,390
2 to 3 months	421	161
Over 3 months	8,005	6,039
	<u>22,285</u>	<u>32,154</u>

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

(b) Other payables and accruals

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Other payables	9,849	9,459
Accruals	7,862	13,153
	<u>17,711</u>	<u>22,612</u>

Other payables and accruals are non-interest bearing and are normally settled within three months.

(c) Amount due to a director

The amount is unsecured, non-interest bearing and repayable on demand.

17. CONVERTIBLE BOND

On 3 October 2017, the Company and China Huarong International Holdings Limited (the “Subscriber” or “CB Holder”) entered into an agreement (the “CB Agreement”), pursuant to which the Company has conditionally agreed to issue, and the Subscriber has conditionally agreed to subscribe for, the convertible bond (the “CB”) in the aggregate principal amount of US\$40,000,000 (equivalent to HK\$312,000,000). The net proceeds from the issue of the CB of approximately US\$39,671,000 (equivalent to HK\$309,439,000, after net off of issuance cost of HK\$2,561,000) will be used for development of the business operations of SHTY, a subsidiary of the Company, in particular, Touyun Retailers Management System, and for other general corporate purposes. The CB Agreement was completed on 10 November 2017 (the “Issue Date”).

The initial conversion price is HK\$1.968 (adjusted for the effect of share consolidation in August 2019) per share, subject to anti-dilutive adjustments. The CB Holder has the right to convert the principal amount of the CB into fully-paid ordinary shares of the Company at any time during the period beginning on, and including, the date falling on the 180th day from the Issue Date and ending on, the Maturity Date.

The CB is secured by over the share capital or registered capital of certain subsidiaries of the Group and personal guarantee provided by Mr. Wang Liang, a director of the Company. The CB bears interest from and including the Issue Date at the rate of 7.0% per annum, payable semi-annually. The CB will mature on the date falling on the second anniversary of the Issue Date subject to an automatic extension to the third anniversary of the Issue Date if the following conditions are satisfied (the “Maturity Date”):

- (i) the revenue for the six months ending 30 June 2019 as shown in the unaudited consolidated accounts of SHTY shall be not less than RMB500 million; and
- (ii) the total debt of SHTY as at 30 June 2019 as shown in its unaudited consolidated accounts for the six months ending 30 June 2019 shall not be more than 40% of its total assets.

On 10 November 2019, condition (i) above had not been satisfied and the maturity date of the CB had not been extended to the third anniversary of the Issue Date (i.e. 10 November 2020).

In the situation where the CB is not redeemed on the Maturity Date, the conversion right attaching to the CB will revive and/or will continue to be exercisable up to, and including, on the date upon which the full amount of the moneys payable in respect of the CB has been duly received by the CB Holder.

Unless previously redeemed, converted or purchased and cancelled, the Company shall, redeem all the outstanding CB on the Maturity Date at an amount equal to the Redemption Amount*. The Company may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount after the 180th calendar day after the Issue Date. Unless previously redeemed, converted or purchased and cancelled, the CB Holders may give notice to redeem in whole, or in part, such CB for the time being outstanding at the Redemption Amount upon occurrence of two consecutive breaches of certain financial covenants as set forth in the CB Agreement.

- * Redemption Amount is defined as an amount equal to the aggregate of (a) the aggregate principal amount of such outstanding CB held by the relevant CB Holder; (b) any accrued but unpaid interest on such outstanding CB on the relevant redemption date; (c) if the sum of the amounts referred in paragraphs (a) and (b) above plus interest already paid on such outstanding CB falls short of making up a return equal to an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB calculated from the Issue Date until the redemption date, such additional amount which would make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB; and (d) (in respect of any redemption made as a result of any events of default) any default interest accrued but unpaid.

The CB contains two components, debt component and derivatives (including conversion and early redemption options) component. Since the Redemption Amount, the principal payable on the Maturity Date are denominated and settled in United States dollars (“US\$”) which is not same as the Company’s functional currency which is HK\$, the conversion option will not result in an exchange of a fixed amount of cash (in the context of the functional currency of the Company) for a fixed number of shares and hence the conversion option does not meet the definition of an equity instrument in accordance with the applicable accounting standards. The effective interest rate of the debt component is 13.08%. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

On 31 August 2018, the Company redeemed US\$13.0 million in principal amount of the convertible bond at the Redemption Amount of approximately US\$13.6 million together with the relevant interest up to 31 August 2018 of approximately US\$0.3 million in accordance with the terms of the convertible bond. Upon completion of the redemption, the outstanding principal amount of the convertible bond is US\$27.0 million.

During the year ended 31 December 2018, the Group failed to comply with certain financial covenants of the CB Agreement. As a result of such breach of the financial covenants, the CB Holder has the rights to serve written notice to the Company demand immediate repayment of the CB within 3 months from the date of the notice served. Hence, the CB in principal amount of HK\$210,600,000 at the Redemption Amount of HK\$222,612,000 has been classified as a current liability as at 31 December 2018.

During the year ended 31 December 2019, the Group repaid principal and interest amounting to US\$420,000 and US\$1,915,000 (equivalent to HK\$3,276,000 and HK\$14,937,000) respectively. As at 31 December 2019, the CB had been past due which is due for immediate payment.

As at 31 December 2019, the amount immediately payable by the Group, taken into account (a) outstanding principal, (b) interest accrued but unpaid, (c) additional interest to make up an internal rate of return of 10.0% on the aggregate principal amount of the outstanding CB and (d) default interest at a rate of 18% per annum on sum due and payable but unpaid by the Company from the occurrence of event of default to the date of actual payment, was approximately US\$28,876,000 (equivalent to HK\$225,236,000).

As at 31 December 2019, US\$28,876,000 (equivalent to HK\$225,236,000) of the CB remained outstanding. Pursuant to the Company’s announcement dated 15 January 2020 and 16 March 2020, the CB matured on 10 November 2019. In December 2019, the Company has received a letter from the CB Holder demanding repayment of the outstanding amount of the CB. The letter did not specify any deadline for repayment.

During the current interim period, the Company repaid the CB principal and interest amounting to US\$6,000,000 and US\$1,229,000 (equivalent to HK\$46,601,000 and HK\$9,547,000) respectively. As at 30 June 2020, US\$20,580,000 (equivalent to HK\$160,524,000) of the principal amount remained outstanding.

On 21 July 2020, the Company entered into an amendment deed (the “Amendment Deed”) with CB Holder and agreed to extend the maturity date of the CB from the second anniversary of the issue date (i.e. 10 November 2019) to the fourth anniversary of the issue date (i.e. 10 November 2021) (the “Revised Maturity Date”). The conversion price is amended as HK\$0.8 per share, subject to anti-dilutive adjustments. Interest of the CB is charged at 12% per annum from 10 November 2019 to the Revised Maturity Date. According to the Amendment Deed, CB Holder is entitled to require the Company to redeem the CB in whole, or in part for the time being outstanding at the redemption amount from 10 October 2020. Details of these are set out in the Company’s announcement dated 21 July 2020. The conditions precedent in Amendment Deed were fulfilled on 10 August 2020, and accordingly the Amendment Deed became effective on 10 August 2020.

The movement of the components of the convertible bond for the six months ended 30 June 2020 and 31 December 2019 is set out below:

	30 June 2020			31 December 2019		
	Debt component	Derivative component	Total	Debt component	Derivative component	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Audited)	HK\$'000 (Audited)
At 1 January	225,236	–	225,236	219,461	3,140	222,601
Finance cost-interest paid	(9,547)	–	(9,547)	(14,937)	–	(14,937)
Repayment of CB	(46,601)	–	(46,601)	(3,276)	–	(3,276)
Finance cost-interest charge	15,351	–	15,351	23,988	–	23,988
Change in fair value	–	–	–	–	(3,140)	(3,140)
Carrying amount at the end of the period/year	<u>184,439</u>	<u>–</u>	<u>184,439</u>	<u>225,236</u>	<u>–</u>	<u>225,236</u>
Classified as:						
Current liability	<u>184,439</u>	<u>–</u>		<u>225,236</u>	<u>–</u>	
	<u>184,439</u>	<u>–</u>		<u>225,236</u>	<u>–</u>	

18. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary share of HK\$0.04 each		
Authorised:		
At 31 December 2019 and 30 June 2020	<u>12,500,000</u>	<u>500,000</u>
Issued and fully paid:		
At 31 December 2019	<u>2,449,328</u>	<u>97,973</u>
Share subscription (Note 1)	135,135	5,406
Share subscription (Note 2)	<u>135,135</u>	<u>5,405</u>
At 30 June 2020	<u>2,719,598</u>	<u>108,784</u>

Notes:

- On 13 March 2020, the Company entered into a share subscription agreement with an independent third party, Tian Yuze (who was subsequently appointed as a non-executive Director of the Company on 7 April 2020), in relation to the subscription for 135,135,135 new shares of the Company at HK\$0.37 per share. The gross proceeds and net proceeds from the subscription are HK\$50,000,000 and HK\$49,876,000 respectively. The proceeds is applied as general working capital of the Group.
- On 14 April 2020, the Company further entered into a share subscription agreement with an independent third party, Ngai Shun, in relation to the subscription for 135,135,135 new shares of the Company at HK\$0.37 per share. The gross proceeds and net proceeds from the subscription are HK\$50,000,000 and HK\$49,987,000 respectively. The proceeds is applied as general working capital of the Group.

19. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include (i) any director, officer, employee, consultant, professional, customer, supplier (whether of goods or services), agent, partner or adviser of or contractor to any member of the Group or its Related Group or a company in which the Group holds an interest or a subsidiary of such company (collectively the “Eligible Group”); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include the Eligible Group; or (iii) a company beneficially owned by the Eligible Group. The Scheme became effective on 18 May 2012 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

“Related Group” means (i) each of the substantial shareholders of the Company, and (ii) each associate and substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above, and (iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above, and (iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above, and (v) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iv) above.

Pursuant to the Scheme, 29,925,000 options (adjusted by the effect of share consolidation in August 2019), 24,437,500 options (adjusted by the effect of share consolidation in August 2019) and 126,000,000 options (adjusted by the effect share consolidation in August 2019) were granted to eligible participants of the Group on 25 January 2017, 12 December 2017 and 21 February 2019 respectively. As at date of this interim report, an aggregate of 90,215,000 shares may be issued upon full exercise of all vested and unvested share options granted under the Scheme, out of which 39,311,250 shares are immediately issuable, representing approximately 1.42% of the total number of issued shares as at the date of this interim report, and 50,903,750 shares are issuable upon vesting and full exercise of share options. The options holders should be remained as eligible participants throughout the vesting period. Movements of the options, which were granted under the Scheme during the period were listed below:

Date of grant	Exercise price* <i>HK\$</i>	Exercisable period	Number of options outstanding at 1 January 2020	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2020
Employees					
25/1/2017	1.34	02/07/2018 to 01/07/2022	3,447,500	(240,625)	3,206,875
25/1/2017	1.34	02/07/2019 to 01/07/2022	3,447,500	(240,625)	3,206,875
25/1/2017	1.34	02/07/2020 to 01/07/2022	3,447,500	(240,625)	3,206,875
25/1/2017	1.34	02/07/2021 to 01/07/2022	3,447,500	(240,625)	3,206,875
			<u>13,790,000</u>	<u>(962,500)</u>	<u>12,827,500</u>

The above options were vested on 2 July 2018. As at 30 June 2020, 6,413,750 (31 December 2019: 6,895,000) share options were exercisable.

Date of grant	Exercise price* HK\$	Exercisable period	Number of options outstanding at 1 January 2020	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2020
Employees					
12/12/2017	1.34	10/06/2019 to 09/06/2023	4,575,000	(6,250)	4,568,750
12/12/2017	1.34	10/06/2020 to 09/06/2023	4,575,000	(6,250)	4,568,750
12/12/2017	1.34	10/06/2021 to 09/06/2023	4,575,000	(6,250)	4,568,750
12/12/2017	1.34	10/06/2022 to 09/06/2023	4,575,000	(6,250)	4,568,750
			<u>18,300,000</u>	<u>(25,000)</u>	<u>18,275,000</u>
Directors					
12/12/2017	1.34	10/06/2019 to 09/06/2023	1,281,250	–	1,281,250
12/12/2017	1.34	10/06/2020 to 09/06/2023	1,281,250	–	1,281,250
12/12/2017	1.34	10/06/2021 to 09/06/2023	1,281,250	–	1,281,250
12/12/2017	1.34	10/06/2022 to 09/06/2023	1,281,250	–	1,281,250
			<u>5,125,000</u>	<u>–</u>	<u>5,125,000</u>
Total			<u>23,425,000</u>	<u>(25,000)</u>	<u>23,400,000</u>

The above options were vested on 10 June 2019. As at 30 June 2020, 11,700,000 (31 December 2019: 5,856,250) share options were exercisable.

Date of grant	Exercise price* HK\$	Exercisable period	Number of options outstanding at 1 January 2020	Lapsed/ cancelled during the period	Number of options outstanding at 30 June 2020
Employees					
21/02/2019	0.48	21/02/2020 to 20/02/2024	8,000,000	–	8,000,000
21/02/2019	0.48	21/02/2021 to 20/02/2024	8,000,000	–	8,000,000
21/02/2019	0.48	21/02/2022 to 20/02/2024	8,000,000	–	8,000,000
			<u>24,000,000</u>	<u>–</u>	<u>24,000,000</u>
Other participants (Note)					
21/02/2019	0.48	21/02/2020 to 20/02/2024	10,000,000	–	10,000,000
21/02/2019	0.48	21/02/2021 to 20/02/2024	10,000,000	–	10,000,000
21/02/2019	0.48	21/02/2022 to 20/02/2024	10,000,000	–	10,000,000
			<u>30,000,000</u>	<u>–</u>	<u>30,000,000</u>
Total			<u>54,000,000</u>	<u>–</u>	<u>54,000,000</u>

Note: Other participants represented the business partners for providing marketing and promotion activities/assistance for promoting the Group's QR code business, whose contributions are expected to be beneficial to the Group.

The above options were vested on 21 February 2020. As at 30 June 2020, 18,000,000 (31 December 2019: Nil) share options were exercisable.

The fair value of the share options granted on 25 January 2017, 12 December 2017 and 21 February 2019 are determined using the Binomial Option Pricing Model, was HK\$17,892,000, HK\$17,950,000 and HK\$27,504,000 respectively. The inputs into the Model and the estimated fair value of the share options are as follows:

	25 January 2017	12 December 2017	21 February 2019
Closing price of the shares	HK\$1.14*	HK\$1.22*	HK\$0.42*
Exercise price	HK\$1.34*	HK\$1.34*	HK\$0.48*
Dividend yield	Nil	Nil	Nil
Expected volatility	93.19%	87.92%	94.36%
Risk-free interest rate	1.289%	1.582%	1.423%
Fair value per share option	HK\$0.572* to HK\$0.612*	HK\$0.716* to HK\$0.744*	HK\$0.216* to HK\$0.22*

Expected volatility was estimated based on the historical volatilities of the Company's share price while dividend yield was estimated by the historical dividend payment record of the Company.

During the six months ended 30 June 2020, the Group recognised an expense of HK\$1,675,000 (six months ended 30 June 2019: HK\$15,549,000) as equity-settled share based payments in the condensed consolidated statement of profit or loss with reference to their respective vesting period.

* The price has been adjusted for the effect of share consolidation implemented on 12 August 2019.

20. CAPITAL COMMITMENTS

The Group has the following capital commitments at the end of the reporting period:

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	71,484	41

21. PLEDGE OF ASSETS

As at 30 June 2020, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$184.4 million (31 December 2019: HK\$225.2 million) convertible bond.

22. CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities (31 December 2019: Nil).

23. EVENTS AFTER THE REPORTING PERIOD

(a) Dilution of shareholding in interests in an associate

On 2 July 2020, FreeOpt Holdings Limited (“FreeOpt”) effected an increase in registered capital whereby an independent third party new investor injected HK\$400,000,000 to FreeOpt. As a result, the Group’s interest in FreeOpt was diluted from 31.38% to 17.61% and the Group ceased to have significant influence over FreeOpt.

The Group subsequently measured and recognised the retained interest in FreeOpt as financial assets at fair value through profit or loss at the date when significant influence is lost and the estimated loss between the fair value of retained interest in FreeOpt and the carrying amount of its investment will be recognised in profit or loss.

(b) Share subscription

On 17 July 2020, the Company entered into a share subscription agreement with an independent third party, Liu Jing (劉靜), in relation to the subscription for 54,054,054 new shares of the Company at HK\$0.37 per share. The gross proceeds and net proceeds from the subscription are HK\$20,000,000 and HK\$19,976,000 respectively. The subscription agreement has been completed as at the date of this announcement.

(c) CB extension

On 21 July 2020, the Company entered into an amendment deed (the “Amendment Deed”) with the CB Holder and agreed to extend the maturity date of the CB from the second anniversary of the issue date (i.e. 10 November 2019) to the fourth anniversary of the issue date (i.e. 10 November 2021) (the “Revised Maturity Date”). Interest of the CB is charged at 12% per annum from 10 November 2019 to the Revised Maturity Date.

According to the Amendment Deed, the CB Holder is entitled to require the Company to redeem the CB in whole, or in part for the time being outstanding at the redemption amount from 10 October 2020. The conditions precedent in Amendment Deed were fulfilled on 10 August 2020, and accordingly the Amendment Deed became effective on 10 August 2020.

(d) Disposal of a financial asset at fair value through profit or loss

On 4 August 2020, Galaxy Vantage Limited, an indirect wholly-owned subsidiary of the Company entered into a sales and purchase agreement with Planetree (Cayman) Capital Limited (the “Purchaser”) to buy back a total of 360 shares of the Purchaser at a cash consideration of HK\$42,120,000. The transaction has been completed as at the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group recorded a loss attributable to the shareholders of the Company of HK\$82.2 million for the six months ended 30 June 2020, representing an increase of 15.8% as compared to the loss attributable to the shareholders of the Company of HK\$71.0 million for the six months ended 30 June 2019. The increase in loss was mainly due to (i) the increase in finance cost; (ii) the increase in fair value loss on financial assets at fair value through profit or loss held for trading; (iii) the increase in share of loss of an associate; (iv) partly setting off by the decrease in administrative expenses and selling and distribution cost by cost control implementation; and (v) the decrease in impairment loss of goodwill.

During the six months ended 30 June 2020, the Group recorded a revenue of approximately HK\$91.4 million (six months ended 30 June 2019: HK\$181.6 million), representing a decrease of approximately 49.7% as compared to the corresponding period of last year. The Group's overall gross profit margin was 39.0% (six months ended 30 June 2019: 30.6%). Such increase in gross profit margin is primarily attributable to the decrease in operating cost.

FINANCIAL REVIEW AND PROSPECT

QR code business

Revenue from QR code business was HK\$34.1 million and its segment loss was HK\$8.0 million during the six months ended 30 June 2020 (six months ended 30 June 2019: Revenue of HK\$29.1 million and segment loss of HK\$81.5 million). The decrease in segment loss was mainly due to the decrease in impairment loss of goodwill during the period.

Packaging products business

The packaging products business reported a revenue of HK\$65.2 million for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$131.6 million), representing a decrease of 50.5% as compared with the corresponding period of last year. A segment loss of HK\$1.3 million was recorded during the six months ended 30 June 2020 (six months ended 30 June 2019: segment profit of HK\$7.1 million). The segment loss was mainly due to significant decrease in revenue primarily from contraction in sale orders.

Treasury investment business

During the period, the Group recorded fair value loss of HK\$8.3 million on financial assets at fair value through profit or loss held for trading, compared to corresponding period in last year amounted to a fair value gain of HK\$20.0 million. Fair value loss of financial assets at fair value through profit or loss not held for trading amounting to HK\$10.6 million was recognised during the period (six months ended 30 June 2019: HK\$35.9 million) it was mainly due to the asset value of the Group's unlisted investments remained relatively stable during the period.

Chlamydomonas Reinhardtii products business

During the period and pursuant to the Company's announcement dated 6 January 2020, 21 February 2020 and 14 May 2020, an indirectly wholly-owned subsidiary was established in the PRC in March 2020 for the purpose of engaging in the chlamydomonas reinhardtii, micro-algae powder and related products business. The construction of fermentation and related facilities is under progress for the production of micro-algae powder and related products in Shanxi, PRC. The construction of the fermentation and related facilities is the first step in the Group's diversification into chlamydomonas reinhardtii, micro-algae powder and related products business. It is expected that the Group will commence the production of chlamydomonas reinhardtii, micro-algae powder and related products in 2021. The subsidiary currently has 12 employees including technicians and engineers who are experienced and specialise in fermentation process and production management of chlamydomonas reinhardtii and micro-algae powder; and administrative supporting staff. Given the trend of Healthy Food in recent years, the Group considers the investment in chlamydomonas reinhardtii, micro-algae powder business is a good opportunity for the Group to diversify its income base.

During the period, the chlamydomonas reinhardtii products business recorded a segment loss of HK\$2.9 million (six months ended 30 June 2019: Nil), primarily related to start-up cost such as administrative expenses.

INTERIM DIVIDEND

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had (i) outstanding HK\$184.4 million secured convertible bond (31 December 2019: HK\$225.2 million) (details of this are set out in note 17); and (ii) HK\$11.8 million unsecured other borrowings bearing interest 10% per annum and repayable within one year (31 December 2019: HK\$11.6 million). As at 30 June 2020, the Group had cash balances amounting to HK\$117.8 million (31 December 2019: HK\$40.5 million). Gearing ratio (net borrowings to shareholders' equity) as at 30 June 2020 was 0.14 (31 December 2019: 0.36).

SHARE CAPITAL

On 13 March 2020, the Company entered into a share subscription agreement with an independent third party, Ms. Tian Yuze (who was subsequently appointed as a non-executive Director of the Company on 7 April 2020), in relation to the subscription for 135,135,135 new shares of the Company at HK\$0.37 per share. The gross proceeds and net proceeds from the subscription are HK\$50,000,000 and HK\$49,876,000 respectively. The proceeds is applied as general working capital of the Group.

On 14 April 2020, the Company further entered into a share subscription agreement with an independent third party, Ngai Shun, in relation to the subscription for 135,135,135 new shares of the Company at HK\$0.37 per share. The gross proceeds and net proceeds from the subscription are HK\$50,000,000 and HK\$49,987,000 respectively. The proceeds is applied as general working capital of the Group.

PLEDGE OF ASSETS

As at 30 June 2020, the Group's equity interest in Apex Capital Business Limited and its subsidiaries were pledged to secure the HK\$184.4 million convertible bond (31 December 2019: HK\$225.2 million).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities (31 December 2019: Nil).

FOREIGN EXCHANGE RISK

Most of the Group's revenues are transacted in US dollars and Hong Kong dollars while expenses are mainly in US dollars, Hong Kong dollars and Renminbi. In view of the prevailing financial market situation, the Group did not engage in any foreign exchange hedging products for the exposure of currency risk of Renminbi during the period. The Group still monitors fluctuations in exchange rates closely and manages the currency risk involved actively.

EMPLOYEES

As at 30 June 2020, the Group had a total workforce of approximately 544 employees in Hong Kong and Mainland China. The Group remunerates its staff based on their merit, qualification, competence and prevailing market salaries trend. In addition to salary and year-end bonus, the remuneration packages also comprised of share option scheme, provident fund contributions, medical and life insurances.

SIGNIFICANT INVESTMENTS HELD

As at 30 June 2020, the Group held listed investments, unlisted investments and investment in an associate of approximately HK\$150.4 million, HK\$238.4 million and HK\$184.7 million respectively, details of which were set out as follows:

Nature of investments	Number of	Percentage of	Fair value	Fair value		Percentage	Investment	Net profit/	Notes
	shares held	shareholding	change	as at	as at	to the			
	as at	as at	for period	30 June	31 December	Group's	cost	(loss) of the	
	30 June 2020	30 June 2020	ended	2020	2019	total assets	HK\$'000	investee	
		%	HK\$'000	HK\$'000	HK\$'000	as at		HK\$'000	
			30 June 2020	2020	2019	30 June 2020	%	HK\$'000	HK\$'000
Financial assets at fair value through profit or loss									
<i>Unlisted Investments</i>									
Freewill Holdings Limited ("Freewill")	14,550,000	2.95	(2,657)	1,368	4,025	0.16	80,025	15,327	(a)
Co-Lead Holdings Limited ("Co-Lead")	363	3.46	2,046	102,664	100,618	11.83	145,200	116,272	(a)
Planetree (Cayman) Capital Limited ("Planetree Capital")	360	8.00	(5,604)	42,120	47,724	4.85	48,960	5,040	(a)
Satinu Resources Group Limited ("Satinu")	9,108,328	0.73	7,043	44,403	37,360	5.12	53,217	(1,235,065)	(b)
Simagi Finance Company Limited ("Simagi")	13,000,000	12.12	(11,398)	47,877	59,275	5.52	65,000	2,884	(a)
			<u>(10,570)</u>	<u>238,432</u>	<u>249,002</u>	<u>27.48</u>	<u>392,402</u>		
Nature of investments	Number of	Percentage of	Share of	Carrying amount		Percentage	Investment	Net profit/	Notes
	shares held	shareholding	loss	as at	as at	to the			
	as at	as at	for period	30 June	31 December	Group's	cost	(loss) of the	
	30 June 2020	30 June 2020	ended	2020	2019	total assets	HK\$'000	investee	
		%	HK\$'000	HK\$'000	HK\$'000	as at		HK\$'000	
			30 June 2020	2020	2019	30 June 2020	%	HK\$'000	HK\$'000
Investment in an associate									
<i>Unlisted Investments</i>									
FreeOpt Holdings Limited ("FreeOpt")	1,500,000	31.38%	(24,458)	184,748	209,206	21.29	150,000	(77,928)	(a)

Notes:

The net profit/(loss) of the investee is based on the investee's financial information, which was:

- (a) According to its management accounts for period ended 30 June 2020.
- (b) According to its management accounts for period ended 31 March 2020.

Nature of investments	Number of shares held as at 30 June 2020	Percentage of shareholding as at 30 June 2020 %	Unrealised gain/(loss) on fair value change for period ended 30 June 2020	Dividends received for period ended 30 June 2020	Fair value as at		Percentage to the Group's total assets as at 30 June 2020 %	Investment cost HK\$'000	Net profit/(loss) of the investee HK\$'000	Notes
			30 June 2020 HK\$'000	30 June 2020 HK\$'000	30 June 2020 HK\$'000	31 December 2019 HK\$'000				
Financial assets at fair value through profit or loss										
<i>Listed Investments</i>										
The Cross-Harbour (Holdings) Limited ("Cross-Harbour")	38,000	0.01	(42)	9	417	–	0.05	459	208,056	(c)
The Hong Kong and Shanghai Hotels, Ltd. ("HK & S Hotel")	186,500	0.01	(249)	16	1,308	1,557	0.15	1,477	(1,228,000)	(c)
Y.T. Realty Group Ltd. ("Y.T. Realty")	15,000,000	1.88	(1,500)	134	31,500	33,000	3.63	30,109	(43,672)	(c)
Imagi International Holdings Limited ("Imagi")	128,000	0.02	(32)	–	92	–	0.01	124	84,588	(c)
Planetree International Development Ltd. ("Planetree")	212,000	0.02	(15)	–	233	132	0.03	231	21,075	(e)
Oshidori International Holdings Ltd. ("Oshidori")	75,765,000	1.24	(645)	–	72,735	72,750	8.38	79,406	(360,014)	(e)
Evergrande Health Industry Group Ltd. ("Evergrande Health")	740,000	0.01	1,931	–	7,681	5,750	0.89	6,669	(5,507,533)	(e)
CST Group Ltd. ("CST Group")	1,139,832,000	2.95	(2,280)	–	25,076	27,356	2.89	28,560	(2,301,749)	(d)
C C Land Holdings Limited ("C C Land")	375,000	0.01	(16)	7	664	–	0.08	680	(1,867)	(c)
China Dili Ltd. ("China Dili")	1,500,000	0.03	(1,200)	–	2,475	3,675	0.28	3,703	635,031	(e)
Eternity Technology Holdings Ltd. ("Eternity Tech")	5,400,000	1.80	(4,158)	–	7,614	11,772	0.88	8,739	605	(c)
WWPKG Holdings Company Ltd. ("WWPKG")	500,000	0.13	90	–	620	530	0.07	487	(26,098)	(d)
			<u>(8,116)</u>	<u>166</u>	<u>150,415</u>	<u>156,522</u>	<u>17.34</u>	<u>160,644</u>		

Notes:

The net profit/(loss) of the investee is based on the investee's financial information, which was:

- (c) According to its interim results announcement for six months ended 30 June 2020.
- (d) According to its annual report for year ended 31 March 2020.
- (e) According to its annual report for year ended 31 December 2019.

Freewill is principally engaged in the business of investment holding.

Co-Lead is principally engaged in securities trading and investment holding businesses. Its investment portfolio consists of listed and unlisted securities.

Planetree Capital is principally engaged in the business of investment holding, property investment, SFC with License to carry out licence Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts) and Type 9 (Asset management) regulated activities under the Securities and Futures Ordinance.

Satinu is principally engaged in integrated financial services, securities brokerage services, money lending, securities and other direct investments.

Simagi is principally engaged in the money lending businesses.

FreeOpt is principally engaged in the provision of finance and money lending businesses.

Cross-Harbour is principally engaged in transport-related businesses, which includes (i) operating driver training centers; (ii) operating the Western Harbour Tunnel and Tate's Cairn Tunnel; (iii) operating an electronic toll collection system and provides automotive telematics services; and (iv) investment and financing businesses.

HK&S Hotel is principally engaged in (i) operating hotels, leasing of commercial shopping arcades and office premises located within the hotel buildings; (ii) leasing of commercial and office premises (other than those in hotel properties) and residential apartments and operates food and beverage outlets in such premises; (iii) operation of golf courses, The Peak Tram, wholesaling and retailing of food and beverage products, laundry services and the provision of management and consultancy services for clubs.

Y.T. Realty is principally engaged in (i) property investment for rental income; (ii) trading of properties; (iii) provision of property management and related consultancy services; and (iv) operation of and investment in driver training centers, as well as tunnel operation and management.

Imagi is principally engaged in computer graphic imaging businesses, cultural and entertainment businesses, as well as the investment in corporate bonds and short-term deposits for interest income. Imagi is also engaged in money lending, the investment in securities and the proprietary trading of listed securities.

Planetree is principally engaged in (i) holding and trading of debt and equity securities, as well as the provision of financing services; (ii) property investment through an associate; and (iii) leasing of properties.

Oshidori is principally engaged in investment holdings, trading and investment in securities, and the provisions of (i) securities brokerage services; (ii) placing and underwriting services; (iii) corporate financial advisory services; (iv) money lending services; (v) investment advisory and asset management services; and (vi) margin financing services.

Evergrande Health is principally engaged in (i) Internet plus community health management, international hospitals, the elderly care and rehabilitation industry, medical beauty and anti-aging, as well as the sales of healthcare spaces; (ii) research, development, production and sales of new energy vehicles, including selling lithium batteries and automotive components, as well as providing technical services.

CST Group is principally engaged in (i) exploration, mining and sales of minerals; (ii) investment in financial instruments; (iii) investment in properties; (iv) money lending businesses; and (v) operation of e-logistics platforms.

C C Land is principally engaged in (i) the development and investment of properties; (ii) the investment in securities and notes receivable, as well as the provision of financial services; (iii) the property holding business and the provision of corporate management services.

China Dili is principally engaged in the operation of agriculture wholesale markets in the PRC.

Eternity Tech is principally engaged in the research and development, manufacture and sales of printed circuit board assembly and fully-assembled electronic products.

WWPKG is principally engaged in selling of packaged tours, air tickets and hotel accommodation (free independent traveler products), and ancillary travel-related products and services in Hong Kong.

Looking forward the second half of 2020, the rapid spread of the Coronavirus disease has dealt a severe blow to global economic activities and sentiment. The management would regularly review the investment portfolios and adopt prudent business strategies with a balanced risk management approach to cope with the unpredictable and challenging economic environment.

UPDATE ON USE OF PROCEEDS IN RELATION TO FUND RAISING ACTIVITIES

The Company would like to further provide the update in respect of the use of the net proceeds in relation to the past fund raising activities as at 30 June 2020:

Reference is made to the announcements of the China Touyun Tech Group Limited (the “Company”) dated 10 August 2016, 9 November 2016, 18 November 2016, 24 January 2017, 21 February 2017, 3 October 2017, 10 November 2017, 31 August 2018, 13 March 2020 and 14 April 2020 in relation to the placing/subscription of shares and issue of convertible bond (collectively refer as to “Announcements”). Unless otherwise stated, capitalised terms used herein shall bear the same meanings as defined in the Announcements.

Intended use of proceeds	Actual use of proceeds
(1) The Company raised HK\$406.1 million net proceeds from the placing of shares in November 2016 and the net proceeds were intended to use as follow:	
(a) An amount of HK\$263.4 million was used for the redemption of the Promissory Note.	An amount of HK\$263.4 million was utilised for the full redemption of the Promissory Note in the principal amount of HK\$258 million and payment of accrued interest.

Intended use of proceeds

Actual use of proceeds

(b) An amount of HK\$142.7 million is for the expansion and development of its QR code business as to:

- (i) an amount of RMB55 million (equivalent to approximately HK\$63 million) towards an acquisition (the “Acquisition”) of 透雲物聯網科技(北京)有限公司 (TY Technology (Beijing) Co. Ltd.* in the People’s Republic of China (the “PRC”) by 上海透雲物聯網科技有限公司 (Shanghai TY Technology Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, under the relevant acquisition agreement dated 24 January 2017 which was completed in March 2017;
- (ii) approximately HK\$14.4 million for the acquisition of plant and equipment (the “Plant and Equipment Acquisition”);
- (iii) approximately HK\$58.7 million for research and development, recruitment of technical staff and other personnel and other working capital needs for QR codes packaging business (the “Research & Development”); and
- (iv) approximately HK\$6.6 million for the purchase of transportation and office supplies to support the “Finding the origins of the edible goods program” in different provinces in the PRC (the “Purchase of Transportation and Supplies”).

- (i) The Acquisition was completed in March 2017 and an amount of HK\$63 million were fully used towards the Acquisition.
- (ii) An amount of HK\$14.4 million was fully used towards the Plant and Equipment Acquisition.
- (iii) An amount of HK\$58.7 million were fully utilised in the Research & Development.
- (iv) An amount of HK\$3.2 million were utilised in the Purchase of Transportation and Supplies and HK\$3.4 million has not yet been utilised and expected to be utilised in 2020 and applied for the same purpose as disclosed in the Announcements.

* For identification purposes only

Intended use of proceeds

Actual use of proceeds

- (2) An amount of net proceeds of US\$39.6 million (equivalent to HK\$309.4 million) was raised from issue of US\$40 million 7% interest convertible bond in November 2017. The Company early redeemed US\$13 million (equivalents to HK\$101.4 million) in principal amount of the CB in August 2018. Therefore, the net proceeds of HK\$203.3 million were intended to use as follows:
- (a) An amount of HK\$172.5 million were used for expansion and development of QR codes business; An amount of HK\$172.5 million was fully utilised for the expansion and development of QR codes business.
- (b) An amount of HK\$30.8 million were used for general working capital of corporate office. An amount of HK\$30.8 million was fully utilised for general working capital of corporate office.
- (3) An amount of net proceeds of HK\$49.88 million was raised from subscription of new shares in March 2020 and applied as general working capital of the Group. HK\$17.52 million was utilised and the remaining is expected to be utilised in 2020.
- (4) An amount of net proceeds of HK\$49.98 million was raised from subscription of new shares in April 2020 and applied as general working capital of the Group. HK\$3.40 million was utilised and the remaining is expected to be utilised in 2020.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020 except one non-executive director did not attend the annual general meeting of the Company held on 5 June 2020 (“2020 AGM”) due to other business engagement. The Company considers that the members of the Board who attended the 2020 AGM were able to sufficiently answering questions from shareholders at the 2020 AGM.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors. Specific enquiries have been made on all directors who have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

AUDIT COMMITTEE

The unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2020 have not been audited, but have been reviewed by the Audit Committee. The Audit Committee comprises three independent non-executive Directors. The primary duties of the Audit Committee are, amongst other matters, to communicate with the management of the Company; and review the accounting principles and practices, internal control, interim and annual results of the Group.

PUBLICATION OF FINANCIAL INFORMATION

This results announcement is published on the respective website of The Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the Company (www.chinatouyun.com.hk). The 2020 Interim Report will also be available on above websites and despatched to the shareholders of the Company in due course.

By order of the Board
China Touyun Tech Group Limited
Wang Liang
Chairman

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprised the following directors:

Executive Directors

Mr. Wang Liang (*Chairman*)
Mr. Du Dong
Mr. Lo Yuen Wa Peter

Non-executive Directors

Mr. Chen Hui
Ms. Tian Yuze

Independent Non-executive Directors

Mr. Cheung Wing Ping
Mr. Ha Kee Choy Eugene
Mr. To Shing Chuen