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HENGTEN NETWORKS GROUP LIMITED

恒騰網絡集團有限公司

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

(Stock Code of Warrants: 1493)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

INTERIM RESULTS

The board of directors (the “Board”, or “Directors”) of HengTen Networks Group Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended	
		30 June	30 September
		2016	2015
		(Unaudited)	(Unaudited)
	<i>NOTE</i>	HK\$'000	HK\$'000
Revenue	3	60,246	73,201
Cost of sales		(36,304)	(54,534)
Gross profit		23,942	18,667

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

		Six months ended	
		30 June	30 September
		2016	2015
		(Unaudited)	(Unaudited)
<i>NOTE</i>		HK\$'000	HK\$'000
	Selling and marketing costs	(2,702)	(2,280)
	Administrative expenses	(17,598)	(26,620)
	Changes in fair value of financial assets at fair value through profit or loss	(2,980)	(24,078)
<i>12</i>			
	Other income	804	800
<i>5</i>			
	Other (losses)/gains-net	(1,295)	2,516
<i>6</i>			
	Equity-settled share-based payments	–	(184,808)
	Operating profit/(loss)	171	(215,803)
	Finance costs	(1,499)	(2,111)
<i>7</i>			
	Finance income	350	43
<i>7</i>			
	Finance costs-net	(1,149)	(2,068)
	Loss before income tax	(978)	(217,871)
	Income tax credit	404	291
<i>8</i>			
	Loss for the period	(574)	(217,580)
	Other comprehensive income		
	<i>Item that may be reclassified to profit or loss</i>		
	Net loss on fair value changes of available-for-sale financial assets	(2)	(90)
	Exchange differences on translating foreign operations	(777)	478
	Other comprehensive income for the period	(779)	388
	Total comprehensive income for the period	(1,353)	(217,192)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

		Six months ended	
		30 June	30 September
		2016	2015
		(Unaudited)	(Unaudited)
<i>NOTE</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period attributable to:			
	– owners of the Company	(686)	(217,578)
	– non-controlling interests	<u>112</u>	<u>(2)</u>
		<u>(574)</u>	<u>(217,580)</u>
Total comprehensive income for the period attributable to:			
	– owners of the Company	(1,390)	(216,996)
	– non-controlling interests	<u>37</u>	<u>(196)</u>
		<u>(1,353)</u>	<u>(217,192)</u>
Loss per share attributable to owners of the Company for the period (expressed in HK cents per share)			
	– Basic and diluted loss per share	9 (0.0008)	(Adjusted) (0.2738)
		<u>(0.0008)</u>	<u>(0.2738)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
	NOTE		
ASSETS			
Non-current assets			
Property, plant and equipment		27,135	3,804
Land use rights		558	736
Investment properties		18,720	19,992
Available-for-sale financial assets		763	765
Prepayments	11	16,423	–
		63,599	25,297
Current assets			
Inventories		1,956	2,979
Trade receivables	10	18,248	19,072
Other receivables and prepayments	11	15,835	4,802
Financial assets at fair value through profit or loss	12	47,040	50,020
Cash and cash equivalents		790,899	764,136
		873,978	841,009
Total assets		937,577	866,306
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	13	147,181	147,179
Share premium	13	5,193,929	5,193,669
Other reserves		19,626	20,329
Accumulated losses		(4,634,507)	(4,633,821)
		726,229	727,356
Non-controlling interests		4,664	4,627
Total equity		730,893	731,983

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

		30 June 2016 (Unaudited) <i>HK\$'000</i>	31 December 2015 (Audited) <i>HK\$'000</i>
	<i>NOTE</i>		
LIABILITIES			
Non-current liabilities			
Borrowings		60,000	60,000
Obligations under finance leases		250	300
Deferred tax liabilities		4,040	4,266
		64,290	64,566
Current liabilities			
Trade payables	14	6,982	6,124
Advances from customers and other payables	15	126,619	54,310
Current income tax liabilities		8,694	9,113
Obligations under finance leases		99	210
		142,394	69,757
Total liabilities		206,684	134,323
Total equity and liabilities		937,577	866,306

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the financial statements for the nine months ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

Pursuant to a resolution of the Board dated 22 December 2015, the financial year end date of the Company has been changed from 31 March to 31 December to align with the financial year end date of its controlling shareholder, China Evergrande Group (formerly known as “Evergrande Real Estate Group Limited”), and thereby facilitate the preparation of the consolidated financial statements of China Evergrande Group. Accordingly, the current financial period covers a six-month period from 1 January 2016 to 30 June 2016 and the comparative financial period covers a six-month period from 1 April 2015 to 30 September 2015. The comparative figures for the condensed consolidated statement of comprehensive income and related notes thereto are not directly comparable. Certain comparative figures have been reclassified to conform with the current period presentation.

In the preparation of the condensed consolidated interim financial information, the Directors of the Company have given due and careful consideration to the future liquidity of the Group by continuous monitoring forecast and actual cash flows, in light of the Group’s total equity of approximately HK\$730,893,000 as at 30 June 2016 and its incurred loss of approximately HK\$686,000 attributable to owners of the Company for the six months ended 30 June 2016. In the opinion of the Directors, the condensed consolidated interim financial information has been prepared on a going concern basis as the Group obtained cash of approximately HK\$791,622,000 from subscription of new shares and exercise of bonus warrants in 2015 and sustainable financial support from the controlling shareholder of the Company. The Directors believe that the Group has sufficient funds to finance its current working capital requirements and financial obligations in the next twelve months from the end of the reporting period.

2 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the financial information for the nine months ended 31 December 2015, as described in those financial statements.

- (a) New standards, amendments to standards and interpretations adopted by the Group as at 1 January 2016.

The following new standards, amendments to standards and interpretations are mandatory for the Group's financial year beginning 1 January 2016. The adoption of these new standards, amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 14	Regulatory deferral accounts
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment entities in applying the consolidation exception
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements
HKAS 1 (Amendment)	Disclosure initiative
Annual improvements 2014	2012-2014 cycle of the annual improvements

- (b) Revenue recognition-sales of internet community services

The Group provides design services to customers. For those services, revenue is recognised in the accounting period in which the services are rendered.

- (c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) of the Group has been identified as the executive directors of the Company who are responsible for reviewing the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: internet community services, investments, property investment and manufacture and sales of accessories.

The CODM assess the performance of the operating segments based on a measure of segment results. Finance cost and income are not included in the result for each operating segment.

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2016 are as follows:

	Internet community services <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	8,045	2,269	-	49,932	60,246
Rental income (<i>Note 5</i>)	-	-	530	-	530
Dividend income from available-for-sale financial assets (<i>Note 5</i>)	-	35	-	-	35
Changes in fair value of financial assets at fair value through profit or loss (<i>Note 12</i>)	-	(2,980)	-	-	(2,980)
	<u>8,045</u>	<u>(676)</u>	<u>530</u>	<u>49,932</u>	<u>57,831</u>
Segment profit/(loss)	<u>2,199</u>	<u>(676)</u>	<u>(1,843)</u>	<u>1,170</u>	850
Unallocated corporate expenses					(690)
Unallocated other income					350
Unallocated finance costs					<u>(1,488)</u>
Loss before income tax					<u>(978)</u>
Depreciation	(2,079)	-	-	(564)	(2,643)
Amortisation	-	-	-	(157)	(157)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(157)</u>	<u>(157)</u>

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 September 2015 are as follows:

	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	–	–	73,201	73,201
Rental income (<i>Note 5</i>)	–	557	–	557
Dividend income from available-for-sale financial assets (<i>Note 5</i>)	35	–	–	35
Changes in fair value of financial assets at fair value through profit or loss (<i>Note 12</i>)	<u>(24,078)</u>	<u>–</u>	<u>–</u>	<u>(24,078)</u>
	<u>(24,043)</u>	<u>557</u>	<u>73,201</u>	<u>49,715</u>
Segment (loss)/profit	<u>(25,067)</u>	<u>(166)</u>	<u>4,981</u>	(20,252)
Unallocated corporate expenses				(195,567)
Unallocated other income				43
Unallocated finance costs				<u>(2,095)</u>
Loss before income tax				<u>(217,871)</u>
Depreciation	–	–	(623)	(623)
Amortisation	<u>–</u>	<u>–</u>	<u>(166)</u>	<u>(166)</u>

Segment assets and liabilities as at 30 June 2016 are as follows:

	Internet community services	Investments	Property investment	Manufacture and sales of accessories	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS					
Segment assets	<u>49,165</u>	<u>50,073</u>	<u>18,720</u>	<u>25,506</u>	143,464
Unallocated property, plant and equipment					61
Unallocated other receivables and prepayments					3,153
Cash and cash equivalents					<u>790,899</u>
Consolidated total assets					<u>937,577</u>
LIABILITIES					
Segment liabilities	<u>83,970</u>	<u>-</u>	<u>400</u>	<u>30,600</u>	114,970
Unallocated other payables and accrued charges					18,980
Unallocated borrowings					60,000
Current income tax liabilities					8,694
Deferred tax liabilities					<u>4,040</u>
Consolidated total liabilities					<u>206,684</u>

Segment assets and liabilities as at 31 December 2015 are as follows:

	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	<u>50,785</u>	<u>19,992</u>	<u>28,194</u>	98,971
Unallocated property, plant and equipment				81
Unallocated other receivables and prepayments				3,118
Cash and cash equivalents				<u>764,136</u>
Consolidated total assets				<u>866,306</u>
LIABILITIES				
Segment liabilities	<u>–</u>	<u>–</u>	<u>33,190</u>	33,190
Unallocated other payables and accrued charges				27,754
Unallocated borrowings				60,000
Current income tax liabilities				9,113
Deferred tax liabilities				<u>4,266</u>
Consolidated total liabilities				<u>134,323</u>

Except the new segment of internet community services, there are no differences from the latest financial statements for the nine months ended 31 December 2015 in the basis of segmentation or in the basis of measurement of segment profit or loss.

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable and operating segments, other than certain property, plant and equipment, certain other receivables and prepayments, and cash and cash equivalents; and
- all liabilities are allocated to reportable and operating segments, other than certain other payables and accrued charges, current income tax liabilities, borrowings and deferred tax liabilities.

4 EXPENSES BY NATURE

Major expenses included in cost of sales, selling and marketing costs, and administrative expenses are analysed as follows:

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Cost of inventories sold	30,867	48,768
Staff costs (excluding share-based payments)	17,047	17,317
Depreciation and amortisation	3,052	1,055
Consultants fees	1,500	704
Commission fees	918	829
Operating lease payments in respect of premises	1,374	1,410
Legal and professional fees	1,371	1,910
Directors' emoluments (excluding share-based payments)	859	3,031
Auditor's remuneration	580	550
Reversal of provisions and other payables	(6,857)	–

5 OTHER INCOME

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Rental income	530	557
Interest income from unlisted convertible bonds	–	177
Dividend income from available-for-sale financial assets	35	35
Sundry income	239	31
	<u>804</u>	<u>800</u>

6 OTHER (LOSSES)/GAINS-NET

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Fair value losses on investment properties	(952)	(375)
Foreign exchange gains	109	77
Write-off of payables	–	2,485
Sundry (losses)/gains	(452)	329
	<u>(1,295)</u>	<u>2,516</u>

7 FINANCE COSTS-NET

	Six months ended	
	30 June	30 September
	2016	2015
	HK\$'000	HK\$'000
Finance costs:		
– Interests expenses on other borrowings	1,488	1,722
– Interests expenses on finance lease liabilities	11	17
– Interests expenses on convertible bonds	–	372
	<u>1,499</u>	<u>2,111</u>
Finance income:		
– Interest income on short-term bank deposits	<u>(350)</u>	<u>(43)</u>
Finance costs-net	<u><u>1,149</u></u>	<u><u>2,068</u></u>

8 INCOME TAX CREDIT

	Six months ended	
	30 June	30 September
	2016	2015
	HK\$'000	HK\$'000
Current income tax		
– provision for the period	(941)	(463)
– over-provision in respect of prior years	<u>1,188</u>	<u>689</u>
	247	226
Deferred income tax	<u>157</u>	<u>65</u>
	<u><u>404</u></u>	<u><u>291</u></u>

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods, based on the existing legislation, interpretations and practices in respect thereof. No Hong Kong profits tax has been provided for during the six months ended 30 June 2016 (for the six months ended 30 September 2015: nil).

The income tax provision of the Group in respect of operations in the People's Republic of China (the "PRC") has been calculated at the applicable tax rate of 25% (for the six months ended 30 September 2015: 25%) on the estimated assessable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

9 LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30 June 2016	30 September 2015 (Adjusted)
Loss attributable to owners of the Company (HK\$'000)	(686)	(217,578)
Weighted average numbers of ordinary shares in issue (thousand shares)	<u>80,743,439</u>	<u>79,468,868</u>
Basic loss per share (HK cents per share)	<u>(0.0008)</u>	<u>(0.2738)</u>

The weighted average number of ordinary shares adopted in the calculation of basic loss per share for each of the six months ended 30 June 2016 and 30 September 2015 have been adjusted for the impact of share consolidation completed on 27 October 2015 and the bonus element implicit in the discount for the new shares and the new warrants issued on 26 October 2015.

(b) Diluted

No potential ordinary shares for each of the six months ended 30 June 2016 and 30 September 2015 were dilutive since their conversion to ordinary shares would result in a decrease in loss per share.

10 TRADE RECEIVABLES

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Trade receivables (a)	23,115	23,567
Less: allowance for doubtful debts	<u>(4,867)</u>	<u>(4,495)</u>
Trade receivables – net	<u>18,248</u>	<u>19,072</u>

- (a) Trade receivables mainly arose from manufacture and sales of accessories business. The Group allows an average credit period ranging from 60 to 150 days to its trade customers. The following is an ageing analysis of trade receivables net of allowances for doubtful debts, based on the invoice date which approximates the revenue recognition date at the end of the reporting period.

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within 60 days	12,203	11,839
61 days to 150 days	6,019	7,148
151 days to 365 days	26	85
	18,248	19,072

As at 30 June 2016, trade receivables of approximately HK\$4,689,000 (31 December 2015: approximately HK\$5,683,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables were as follows:

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Within 60 days	4,551	5,105
61 days to 150 days	138	578
	4,689	5,683

As at 30 June 2016, trade receivables of approximately HK\$4,867,000 (31 December 2015: approximately HK\$4,495,000) were fully impaired. The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. The Group's policy on allowance for doubtful debts is based on the evaluation of collectability, age of accounts and on management's judgement including credit worthiness and past collection history of each customer.

The maximum exposure to credit risk at each balance sheet date is the carrying value of each class of receivables mentioned above.

11 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Prepayments	18,314	302
Deductible input value-added tax	6,733	–
Amounts due from a related party (a)	2,899	2,727
Investment dividend receivable	2,269	–
Deposits	725	844
Others	1,318	929
	<u>32,258</u>	4,802
Less: non-current portion of prepayments (b)	<u>(16,423)</u>	–
	<u><u>15,835</u></u>	<u><u>4,802</u></u>

(a) Amounts due from a related party were the amounts due from the director of a subsidiary, which were unsecured, interest-free and repayable on demand.

(b) Amounts represented the prepayments for purchase of property, plant and equipment.

12 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June 2016	Six months ended 30 September 2015		
	Held-for- trading investments HK\$'000	Held-for- trading investments HK\$'000	Unlisted convertible bonds HK\$'000	Total HK\$'000
Balance at the beginning of the period	50,020	–	24,510	24,510
Additions	–	121,700	–	121,700
Changes in fair values recognised in profit or loss	(2,980)	(19,568)	(4,510)	(24,078)
Disposals	–	(53,582)	(20,000)	(73,582)
Balance at the end of the period	<u><u>47,040</u></u>	<u><u>48,550</u></u>	<u><u>–</u></u>	<u><u>48,550</u></u>

As at 30 June 2016, held-for-trading investments represented the Group's equity investments in certain Hong Kong listed companies, which were quoted in The Stock Exchange of Hong Kong Limited.

13 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>
Six months ended 30 September 2015			
Balance at 1 April 2015	31,268,921,605	312,689	4,133,356
Issue of new shares upon conversion of convertible bonds	4,375,000,000	43,750	390,371
Issue of new shares upon exercise of bonus warrants	1,098,324,677	10,983	98,633
Transaction costs attributable to issue of new shares	–	–	(3)
	<u>36,742,246,282</u>	<u>367,422</u>	<u>4,622,357</u>
Balance at 30 September 2015	<u>36,742,246,282</u>	<u>367,422</u>	<u>4,622,357</u>
Six months ended 30 June 2016			
Balance at 1 January 2016	73,589,314,214	147,179	5,193,669
Issue of new shares upon exercise of bonus warrants	1,313,900	2	260
	<u>73,590,628,114</u>	<u>147,181</u>	<u>5,193,929</u>
Balance at 30 June 2016	<u>73,590,628,114</u>	<u>147,181</u>	<u>5,193,929</u>

14 TRADE PAYABLES

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Trade payables	<u>6,982</u>	<u>6,124</u>

The ageing analysis of trade payables of the Group based on invoice date were as follows:

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Within 60 days	6,860	6,048
61 days to 150 days	95	23
Over 150 days	27	53
	<u>6,982</u>	<u>6,124</u>

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15 ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	30 June	31 December
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances from customers of internet community services	81,591	–
Other payables	30,088	34,272
Accrued expenses	4,685	7,355
Other taxes payable	10,255	12,683
	<u>126,619</u>	<u>54,310</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS AND BUSINESS REVIEW

The Group recorded a loss for the six months ended 30 June 2016. The loss attributable to shareholders of the Company (“Shareholders”) for the six months ended 30 June 2016 amounted to approximately HK\$0.7 million, which decreased by approximately HK\$216.9 million, as compared to the loss of approximately HK\$217.6 million for the six months ended 30 September 2015. The decrease in loss was mainly attributable to:

- (i) no equity-settled share-based payments expense recognised for the six months ended 30 June 2016 as compared to that of approximately HK\$184.8 million recognised for the six months ended 30 September 2015, which was in one-off nature; and
- (ii) decrease in net loss in fair value of financial assets at fair value through profit or loss from approximately HK\$24.1 million for the six months ended 30 September 2015 to approximately HK\$3.0 million for the six months ended 30 June 2016.

The basic and diluted loss per share was HK0.0008 cents for the six months ended 30 June 2016, as compared to the basic and diluted loss of HK0.2738 cents (adjusted) for the six months ended 30 September 2015.

Internet Community Service

During the six months ended 30 June 2016, the Group conducted its Internet community service business in communities across China, and turnover of approximately HK\$8,045,000 was recorded for such segment, including revenue from Internet home sector of approximately HK\$7,937,000 and revenue from community resource sector of approximately HK\$108,000.

Cost of Internet community service business represented mainly labour cost and depreciation. Gross profit margin of such segment was approximately 58.42%. After deducting distribution cost and administrative expense of approximately HK\$2,501,000, the segment recorded profit of approximately HK\$2,199,000.

(I) Market Overview

In recent years, development concepts such as “Internet Plus” and “mass entrepreneurship and innovation” have been included in the PRC government work report and became national development strategy. The Guiding Opinions of the State Council on Actively Promoting the “Internet Plus” Action were issued in July 2015, and the Report of the State Council on the Work of the Government for the Year 2016 further stressed the implementation of the “Internet Plus” Action. Such favourable policies have created precious opportunities for enterprises relating to the “Internet Plus” Action and enabled them to maintain rapid growth in the first half of 2016.

As stated in the Report of the State Council on the Work of the Government for the Year 2016, the supply side structural reform is one of the key tasks for the year 2016. Essentially the supply side structural reform aims to stimulate economic growth by improving the quality of supply to boost demand. It requires the supply side to further explore and effectively match potential demand to spur consumption growth. The rapid development of community Online-to-offline (O2O) services has significantly improved the quality of the supply side. Through such services, laundry can be collected and delivered at door. Users no longer have to go out to buy tickets. All these can be achieved through simple operation on a mobile phone. As pointed out by Li Keqiang, Premier of the State Council, the government will support the growth of consumption in elderly care, health services, housekeeping services, educational and training services, and cultural and sports services, and community O2O is also quite good at meeting such needs. As estimated by Roland Berger, a renowned institution, the size of the PRC O2O market will reach RMB51.2 billion by 2016 with a growth rate of 68% and will continue to grow at a high rate in the next five years. By 2020, it is estimated that commercial spending of communities in the PRC may reach RMB18 trillion, providing strong support for the development of the community O2O market, with a potential market size of trillions of Renminbi.

As an integrated Internet community service and resources operator jointly controlled by China Evergrande Group (“China Evergrande”) (HK.3333) and Tencent Holdings Limited (“Tencent”) (HK.0700), the Group, in accordance with the concept of platform operation and relying on China Evergrande’s advantages in large-scale communities and Tencent’s technical and portal support, provides property owners with one-stop services covering clothing, food, accommodation, transport and entertainment by introducing service providers that provide highest-quality services in various industries to meet the needs of residents, which help lower living cost and improve service efficiency.

With over 400 projects in around 180 cities across the PRC, China Evergrande’s contracted sales area has been ranked No.1 in the PRC for years and the number of its community property owners has maintained a rapid growth. Whereas Tencent has advanced internet technology resources and a vast user database, the total number of monthly active accounts of Tencent’s major platforms, including Weixin, WeChat and QQ, is over 1.7 billion.

In the first half of 2016, by combining the strengths of the two major shareholders of the Company, centering on the “3+2+x” business plan previously adopted by the Group and relying on three fundamental segments being property services, neighborhood social networking and life services, two value-added segments being Internet home and community finance, and multi-function service segment which might be derived in the future, the Group continued to expand and diversify the functions of its products under the platform operation model of light assets, and recorded fast and steady growth.

(II) Business Development

As at 30 June 2016, HengTen Mimi APP, an integrated community O2O platform developed by the Group, had been upgraded to version 2.5. The building of three fundamental segments was completed. The Internet home platform developed by the Group was upgraded to the HengTen Mijia platform and provided property owners in the first 23 Evergrande communities with “new properties with move-in condition”. In view of the above, the Board is of view that the innovative “Internet Plus Community” ecosphere developed by the Group is gradually taking shape.

1. Fundamental Segments

As planned, HengTen Mimi will carry out business in the three fundamental segments being property services, neighborhood social networking and life services. In the first half of 2016, the Group focused on improving the experience of users, expanding product functions and improving service quality. It launched HengTen Mimi versions 1.6 and 2.0 in March and May 2016, respectively, and completed the research and development and internal testing of HengTen Mimi version 2.5 on 30 June 2016, with the number of its platform functions increasing to 30 for version 2.5 from 6 for version 1.0.

In addition, the Group continued to develop business in a total of 12 communities in the first batch of pilot cities including Guangzhou, Shenyang, Shijiazhuang, Jinan, Luoyang, Wuhan, Changsha, Nanchang and Chengdu, and a large number of property owners have signed up to use the HengTen Mimi APP. As at the date of this announcement, the HengTen Mimi APP has a total of over 220,000 registered users, with pilot community property owner verification ratio of 96%, activity ratio of over 50%, and property owner function usage coverage ratio of 97%.

(1) *Property Services*

In addition to the existing online collection of property management fees, home facilities repair and maintenance, reporting public facilities requiring repair, community information communication, property owners' voices, intelligent cat eyes and other functions, connecting with smart peephole and other intelligent home security monitoring equipment provided in its version 1.0, the HengTen Mimi APP will gradually add functions including housekeeper appraisal, property owner satisfaction survey and smart door magnetic alarm to connect online and offline property services, timely respond to the needs of property owners for highly-demanded daily services, increase the number of channels for them to give feedbacks, and further improve the experiences of users. Since its launch, the functions of the segment have become more frequently used, which has effectively improved users' loyalty to the online service platform and activity and created opportunities for providing additional services.

(2) *Neighborhood social networking*

In addition to event sharing function, additional functions including photo wall, selection and voting, career verification and neighborhood market and location-based relationship development were provided to tap into community life by participating in social activities and sharing lifestyle news, to cultivate usage habits, to conduct online events, and to develop interest groups and second-hand market. Since its launch, the segment has accumulated a large number of active users for the Group, paving the way for the development of community sharing economy model.

(3) *Life Services*

In the first half of 2016, a wide range of life service functions were launched. HengTen Mimi APP started to provide services for the convenience of users such as home cleaning, door-to-door laundry services, smart delivery cabinet and mobile phone account recharging, and its e-commerce platform Mimi Mall has started selling China Evergrande's own products, products provided directly by well-known e-commerce businesses and daily necessities including fresh food such as fruit, vegetable, meat, eggs, dairy products and poultry. Highly-demanded functions including exhibition of nearby businesses and users' reviews were completed for the community business circle. Through introducing the best service providers in various industries, the Group is committed to lowering living cost of community property owners and improving service efficiency.

2. *Value-added Segments*

(1) *Internet Home*

In the first half of 2016, the Group completed the development of its Internet home platforms, being HengTen Mijia WeChat Mall for mobile platform and online mall for PC platform.

For business development, the Group partnered with top-notch decoration and design teams across China to provide property buyers with custom-made full-set decoration and design proposals to meet their needs for high-quality home life designs through questionnaire, project positioning analysis and market survey.

The Group also set up an alliance with 15 suppliers of leading home product brands and four major national household electric appliance sellers to provide buyers of properties developed by China Evergrande with “new properties with move-in condition”. Through direct cooperation with manufacturers, all products are directly provided by them, which has provided property owners with real benefits by removing intermediate links and saving intermediary expenses. Further, the Group built model units with decorations identical to those to be delivered upon completion at its selected property projects, and adopted the model of “online exhibition through HengTen Mijia platform and offline experience of model units” to provide property buyers with full-set furniture, household electric appliances and customized household textile products, which has created one-stop home service experience that saves time, efforts, worries and money.

As at 30 June 2016, the Group had provided buyers of a total of 23 residential communities developed by China Evergrande in 22 cities in the PRC including Beijing, Chongqing, Chengdu, Shijiazhuang, Hefei, Wuhan, Nanchang, Dongguan, Heyuan, Chaozhou, Pinghu, Wuxi, Suqian, Jurong, Lianyungang, Xingtai, Huainan, Jingdezhen, Ji’an, Quzhou, Xiangyang and Xuchang, with “new properties with move-in condition”.

(2) *Community Finance*

In the first half of 2016, the Group launched “Enjoy Life” series community finance products to cater to diversified wealth management and consumption settings in view of the daily behaviours of users in community lives..

Its first product “Ye Zhu Bao” has been launched on the HengTen Mimi APP designed by the Group to meet the needs of community property management fee payment. Such product is available to property owners in China Evergrande communities only and can provide property management fee payment, investment and several value-added services.

3. *Derivative Segments*

Based on in-depth survey and research of the needs of community property owners in respect of investment and appreciation in assets value, the Group explored a new business segment of sale and leasing of pre-owned properties and plans to build a community ecosphere covering leasing and living with HengTen Mimi APP. In the first half of 2016, the Group completed the market survey of such business and idle property resources owned by certain property owners, established a relevant database and selected two pilot projects. With idle properties entrusted by their owners for custody, the Group strived to quickly utilise idle properties through various leasing and management models, so as to enable value appreciation of such properties.

(III) Team Building

The Group has gradually established a team of high calibre personnel providing both online and offline services. For the online part, most of core team members are from largest domestic and overseas Internet companies and top three property developers in the PRC, and substantially all of them graduated from top universities in the PRC and overseas. With an average age of 28 and average industry experience of 6.5 years, they possess extensive experience in the Internet industry as well as higher efficiency and execution ability than industry peers. For the offline part, the Company has experienced property management teams in the PRC promoting products and providing services in the communities through seamless teamwork cooperation and connection with the online teams.

Investments

The segment recorded a loss of approximately HK\$0.7 million for the six months ended 30 June 2016 as compared with a loss of approximately HK\$25.1 million for the six months ended 30 September 2015. The substantial decrease in loss was mainly due to the decrease in loss from change in fair value of financial assets at fair value through profit or loss from approximately HK\$24.1 million for the six months ended 30 September 2015 to approximately HK\$3.0 million for the six months ended 30 June 2016.

Loan financing

During the six months ended 30 June 2016, no new loan was granted and therefore no interest income was generated for this segment (2015: nil).

Property investment

During the six months ended 30 June 2016, rental income of approximately HK\$0.5 million was generated.

With the decrease in fair value of investment properties as at 30 June 2016 as compared to 31 December 2015, a fair value loss of approximately HK\$1.0 million was recognised during the six months ended 30 June 2016. The decrease in fair value was mainly due to the decrease in the market price of the investment properties. Also, with the increase in the administrative cost for the building management service from approximately HK\$0.4 million for the six months ended 30 September 2015 to approximately HK\$1.4 million for the six months ended 30 June 2016, the segment recorded loss of approximately HK\$1.8 million for the six months ended 30 June 2016, as compared with loss of approximately HK\$0.1 million for the six months ended 30 September 2015.

Manufacture and sale of accessories

The segment's turnover decreased from approximately HK\$73.2 million for the six months ended 30 September 2015 to approximately HK\$49.9 million for the six months ended 30 June 2016, representing a decrease of approximately 31.8%. It was mainly due to a decrease in demand in photographic market and absence of the repeated significant order from a new customer acquired during the six months ended 30 September 2015.

Due to the absence of relatively low margin of the above-mentioned significant order from a new customer, the gross profit margin of the segment increased from approximately 25.6% to 34.0% on average for the six months ended 30 June 2016. With the decrease in segment's turnover, the segment profit decreased by approximately HK\$3.8 million, from approximately HK\$5.0 million for the six months ended 30 September 2015 to approximately HK\$1.2 million for the six months ended 30 June 2016.

PROSPECTS

Internet Community Service

In the second half of 2016, the Group will continue to expand its product functions, further develop value-added services and conduct innovations based on the needs of property owners. It will also expand the scopes of pilot programs and increase their sizes.

(I) Product Development Plan

In the second half of 2016, HengTen Mimi APP will continue to enrich and expand its services and functions to enable full coverage of property management, social networking, life services, community finance, home, health and education, so that a brand new community ecosphere will be formed to further improve user experience. For Internet home, the Group will continue to optimise the HengTen Mijia platform and upgrade its product packages, and explore new business such as brand-new small space storage system.

1. *Fundamental Segments*

(1) *Property Services*

The Group will further improve intelligent community management, promote the adoption of various intelligent hardware and connect them to the HengTen Mimi platform, and continue to improve its basic community service functions, so as to make HengTen Mimi APP the most convenient and trusted communication tool for property owners.

(2) *Neighborhood social networking*

The segment will develop personalized services including interest and social groups and theme clubs in order to enhance user loyalty to social platforms, and will incubate second hand trading, item replacement and skill exchange segment to build shared community economy, protect environment and save energy.

(3) *Life Services*

Life services segment plans to introduce online life services such as car-leasing, car-washing, housekeeping and nursing, education and training, health services, tourism and ticket selling, hotel services and other vertical categories based on the lifestyle demand and habits on basic necessities preference analysis of the community property owners, which will cover almost all daily services required by residents and provide them with convenience.

2. *Value-added Segments*

(1) *Internet Home*

In the second half of 2016, the Group will continue to optimise the functions and product packages of the HengTen Mijia platform, develop more vivid online exhibition functions and achieve all-around development of home business through the Internet.

Moreover, in view of current increase in prices of properties in the first and second-tier cities and larger percentage of properties with relatively small properties to total properties, the Group is actively exploring innovative home business including brand-new small space storage. It will strive to improve user experience through innovative designs to increase space utilisation ratio. It will also continue to diversify its Internet home business by exploring new property features including elderly care and vacation to develop unique home products matching the demand.

(2) *Community Finance*

In addition to the “Ye Zhu Bao” product already launched, additional community Internet finance products customized for community settings will be launched in the future.

Thereafter, the Group will introduce more high-quality wealth management products to property owners to cater to a wide range of settings including community business circle, community e-commerce, life services, community leasing and intelligent security system.

3. *Derivative Segments*

The Group will continue to explore sale and leasing of pre-owned properties and expand the coverage of pilot projects. By leveraging its advantages in consolidating resources, the Group will provide users with supplementary services to property leasing to lower users' cost of leasing and sale and improve service efficiency.

(II) Platform Operation Plan

In view of the vast blue ocean community market, a strategy of pilot first, orderly expansion and efficient advancement will continue to be implemented to realize step-by-step coverage of all China Evergrande communities and other communities across the PRC and realize a leaping increase in the number of users.

In 2015, the Group's community O2O products have been fully launched in 12 pilot China Evergrande communities, providing high frequency and high quality property, social networking and life services for property owners in pilot communities. In accordance with the development scale objectives of the Group, the coverage of products and services will expand to most of China Evergrande communities during 2016. The service will cover all China Evergrande communities and will expand to other communities across the PRC, establishing its absolute leading position in the O2O market in 2017. In 2018, the Group will continue its integration and development in domestic community, further expand community O2O service functions and value-added services, and advance the blue ocean market expected to worth trillions of dollars.

Manufacturing and sales of accessories

The Group expects that its manufacture and sales of photographic accessories will encounter sluggish market demand attributable to weakening Euro dollars which may reduce the demand of European markets, the biggest markets accounted to approximately 46% of the turnover in this business segment, and keen competition from its competitors. In this regard, the Group will continuously control its costs, strengthen customer relationship, broaden customer base, develop products to suit customer needs in action camera, monitor its level of indebtedness and funding requirements. Overall speaking, the Group expects the performance of this segment will remain stable in the year ahead. Moreover, the Group will closely monitor and capture any opportunity to improve segment's position, both financially and operationally.

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder's equity, other borrowings and cash generated from operations. During the six months ended 30 June 2016, the liquidity of the Group was closely monitored by the Board and the Group reviews its working capital and finance requirements on a regular basis.

Liquidity

As at 30 June 2016, the Group maintained cash and bank balances of approximately HK\$790.9 million (as at 31 December 2015: approximately HK\$764.1 million). The increase in cash and bank balances was mainly due to the advanced receipt from the provision of the "home decoration design package" service in the internet community service segment.

Capital Resources – exercise of the bonus warrants during the six months ended 30 June 2016

The bonus warrants issue to Shareholders on the basis of one warrant (the "Existing Warrant") for every five shares held on the record date, entitling the warrant holders to subscribe in cash for one new share at an initial subscription price of HK\$0.1 per new share, at any time from 24 February 2015 to 23 February 2017 (both days inclusive) was announced on 24 December 2014 and completed on 24 February 2015. The subscription price was adjusted to HK\$0.2 per new share upon the share consolidation of the Company becoming effective on 27 October 2015, in which every two issued and unissued shares of par value of HK\$0.001 each of the Company were consolidated into one consolidated share of par value of HK\$0.002 each of the Company (the "Share Consolidation"). During the six months ended 30 June 2016, 1,313,900 new shares of the Company had been issued and allotted upon exercise of HK\$262,780.00 Existing Warrants (adjusted with Share Consolidation) with net proceeds of approximately HK\$0.26 million which have been used as general working capital of the Company.

Borrowings and Gearing Ratio

As at 30 June 2016, the Group's total equity amounted to approximately HK\$730.9 million (as at 31 December 2015: approximately HK\$732.0 million). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing bank and other borrowings plus obligations under finance lease) over shareholders' funds was 8.31% (as at 31 December 2015: 8.32%).

As at 30 June 2016, the Group had no secured bank borrowings (as at 31 December 2015: nil).

CHARGE OF ASSETS

As at 30 June 2016, margin facilities of approximately HK\$18.2 million (as at 31 December 2015: approximately HK\$19.5 million) from one regulated securities broker were granted to the Group under which financial assets at fair value through profit or loss of approximately HK\$47.0 million (as at 31 December 2015: approximately HK\$50.0 million) were treated as collateral for the facilities granted.

CONTINGENT LIABILITIES

The Group had not provided corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 30 June 2016 (as at 31 December 2015: nil).

CURRENCY RISK MANAGEMENT

The Group operates in Hong Kong and the PRC. The majority of the Group's assets are denominated in Hong Kong Dollars with no material foreign exchange exposure. The Group's manufacturing business also operates in overseas markets, which alone accounts for approximately HK\$34.7 million of the Group's sales turnover. In safeguarding the volatile Euro Dollars currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting sale orders quoted in US dollars, which in turn could enable the management to maintain a stable currency exchange condition for normal trading business development. The Group currently does not have a foreign currency hedging policy. During the six months ended 30 June 2016, the Directors are of the view that the Group's exposure to exchange rate risk is not material, and will continue to monitor it.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 September 2015: nil).

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2016.

SHARE-BASED PAYMENTS

2013 Option Scheme

The Company's share option scheme (the "2013 Option Scheme") was adopted pursuant to a resolution passed by the Shareholders on 31 October 2013. The purpose of the 2013 Option Scheme is to provide incentives to eligible participants. During the six months ended 30 June 2016, no option had been granted and there was no outstanding share option of the Company as at 30 June 2016 (as at 31 December 2015: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group employed approximately 385 employees, around 65.7% and 24.2% of them were employed in the PRC for the manufacturing business and the internet community service business of the Group respectively. The remuneration policy of the Group is to reward its employees with reference to their qualifications, experience and work performance as well as to market benchmarks. Employee benefits include medical insurance coverage, mandatory provident fund and share option scheme. Total staff costs for the six months ended 30 June 2016, including Directors' emoluments, amounted to approximately HK\$17.9 million.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Up to the date of this announcement, no material events occurred after the reporting period.

REVIEW OF INTERIM RESULTS

The interim financial information of the Company for the six months ended 30 June 2016 has been reviewed by the Audit Committee. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group, and discussed legal and compliance, internal controls, risk management and financial reporting matters including the review of the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016.

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2016 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Board considers that good corporate governance practices of the Company are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the Shareholders and other stakeholders. The Company complied with the code provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), during the six months ended 30 June 2016 except for the following deviations from the Code provision:

- a) Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the six months ended 30 June 2016, the Company has no such title as chief executive officer. The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operation and execution is vested in the Board itself.
- b) Code Provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting of the Company. Mr. Peng Jianjun, the chairman of the Board, did not attend the annual general meeting held on 10 June 2016 due to work reasons.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set forth in Appendix 10 to the Listing Rules as the code of conduct for securities transactions conducted by the Directors. The Company, having made detailed and cautious enquiries, confirmed that all Directors have abided by the Model Code for the six months ended 30 June 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

This interim results announcement is also published on the Stock Exchange’s website (<http://www.hkex.com.hk>) and the Company’s website (<http://www.htmimi.com>). The interim report containing all information required by the Listing Rules will be dispatched to the Shareholders and will be available on websites of the Stock Exchange and the Company in due course.

FORWARD LOOKING STATEMENTS

There can be no assurance that any forward-looking statements regarding the business development of the Group set out in this Management Discussion and Analysis or any of the matters set out therein are attainable, will actually occur or will be realised or are complete or accurate. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place undue reliance on the information disclosed herein. Any holder of securities or potential investor of the Company who is in doubt is advised to seek advice from professional advisors.

APPRECIATION

The Board would like to express its sincere gratitude to our business partners, employees and shareholders for their continuous support.

By Order of the Board
HengTen Networks Group Limited
Zhang Xiaohua
Chairlady

Hong Kong, 23 August 2016

As at the date of this announcement, the executive directors of the Company are Ms. Zhang Xiaohua, Mr. Liu Yongzhuo, Mr. Huang Xiangui and Mr. Zhuo Yueqiang; and the independent non-executive directors of the Company are Mr. Chau Shing Yim, David, Mr. Nie Zhixin and Mr. Chen Haiquan.