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## **HENG TEN 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)**

### **BUSINESS UPDATE**

References are made to the circular of HengTen Networks Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 21 September 2015 in relation to, among other things, the subscription of the Subscription Shares and the New Warrants of the Company (the “**Subscription**”) by Evergrande and Mount Yandang (a wholly-owned subsidiary of Tencent) (the “**Circular**”), the announcement of the Company dated 15 October 2015 in relation to, among other things, the poll results of the special general meeting held on the same day, the announcement of the Company dated 26 October 2015 in relation to the completion of the Subscription and the announcement of the Company dated 23 August 2016 in relation to the interim results of the Group for the six-month period ended 30 June 2016. Unless the context requires otherwise, all capitalised terms used in this announcement shall have the same meanings as defined in the Circular.

As only an insignificant portion of the Existing Warrants were exercised before completion of the Subscription and none of the New Warrants were exercised, the proceeds from the Subscription amounted to approximately HK\$672,401,409 as of the date of this announcement. As such, the amounts to be used in certain items were reduced on a proportional basis as stated in the Circular.

Upon completion of the Subscription, the Subscribers needed time to further evaluate the First Stage Development Plan in view of the commercial circumstances, which, together with the changes in management of the Company as stated in the Circular and the announcement of the Company dated 24 June 2016 in relation to the changes of executive Directors and chairman of the Board, resulted in a slight delay in the implementation of the First Stage Development Plan. Following the assessment by a working group set up by the Subscribers and the management team of the Company after the completion of the Subscription, relevant adjustments and modifications were made to the First Stage Development Plan. The adjusted and modified First Stage Development Plan is expected to be implemented within the next 12 to 18 months, with details set out below. This announcement is made by the Company to provide the shareholders of the Company (the “Shareholders”) with updates on (i) the development status of the ICS Online Platform; (ii) the adjustments and modifications made to the proposed use of proceeds from the Subscription; and (iii) the major transaction in relation to purchase of technology equipment. All the figures relating to the financial position of the Group disclosed in this announcement have not been audited or reviewed by the auditors of the Company.

#### **DEVELOPMENT STATUS OF THE ICS ONLINE PLATFORM**

In the first half of 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, being property service, neighbourhood social networking and life services, was completed. The number of platform service functions increased to 30 in the version 2.5 APP. Through cultivating in 12 pilot communities, a large number of property owners and relevant users have signed up to use the HengTen Mimi APP. By mid-August 2016, the HengTen Mimi APP had 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%.

Furthermore, the Group had completed the development of its Internet home platforms. For property buyers, the Group partnered with top-notch decoration and design teams across China to provide them with custom-made full-set decoration and design proposals. For property owners taking possession of properties, the Group set up an alliance with 15 suppliers of leading home product brands and 4 major national household electric appliance sellers to provide “new properties with move-in condition”. As at the end of June 2016, such service had been provided to the first batch of property owners in 23 Evergrande communities.

Moreover, the Group launched “Enjoy Life” series community finance products. Its first product “Ye Zhu Bao” has been launched on the HengTen Mimi APP to meet the needs for community property management fee payment. Such product can provide property management fee payment, investment and several value-added services.

Based on its in-depth survey and research of the needs of community property owners in respect of their investments and appreciation in asset value of their properties, the Group actively explored new business opportunities in the segment of sale and leasing of pre-owned properties in the first half of 2016. So far, the Group has decided to undertake two pilot projects. Entrusted by property owners to manage their idle properties on their behalf, the Group was able to help property owners to utilise their idle properties quickly through various leasing and property management methods, whereby contributing to value appreciation of such properties.

## **USE OF PROCEEDS FROM THE SUBSCRIPTION**

The actual use of the proceeds by the Company up to 31 August 2016 and related explanations are set out as below:

### **I. Research and development of the ICS Online Platform and related systems technology**

#### **(1) Staff remuneration for professionals, together with other research expenses and patent application fees for the relevant products**

In view of the current business development of the Company, the Company mainly acts as a light asset platform operation company integrating different business participants. As at 31 August 2016, the Company had utilised approximately HK\$9,000,000 in staff remuneration. The Company plans to have a total of approximately 200 professionals to meet its business needs for the next 12 to 18 months. It is expected that the total cumulative staff remuneration after the completion of the Subscription up to the next 12 to 18 months will be HK\$120,000,000.

As for research and development, in light of the uniqueness, exclusivity and confidentiality of internet technology, the internet technology development and research of the Group is mainly conducted by its own technology team, and the costs involved are mainly the aforesaid staff remuneration expenses. In addition, in order to meet the business development needs of the Group and facilitate the upgrading of new technology, the Company intends to introduce resources, such as engaging an external technical consultant team, and the cost of which for the next 12 to 18 months is expected to be HK\$20,000,000.

In view of the above, the Company's staff remuneration for professionals and other research expenses and patent application fees for the relevant products will increase from approximately HK\$90,000,000 as stated in the Circular (as reduced on a proportional basis) to HK\$140,000,000.

**(2) Purchase of carpark management systems and carpark intelligence navigation system**

As a result of rapid growth of the internet carpark management system and related industries, resources are no longer needed to upgrade the carpark hardware facilities. The original carpark management plan can be realized through the connection of the Anjubao cloud platform to the platforms of the Company. As such, the Group increased the research and development expenses for its platform, as stated in paragraph (1) above, to enhance its platform connection function, and the Company no longer needs the Carpark Management Systems Agreement and the proposed agreement for purchase of carpark intelligence navigation system. The proceeds originally intended for such purposes will be allocated by the Company to other uses stated in this announcement.

**(3) Feasibility studies**

The Company plans to select an external consulting team and research subjects of appropriate size to conduct studies of feasibility of internet services. It is expected that the expenses for such purpose for the next 12 to 18 months can be reduced from HK\$5,000,000 as stated in the Circular to HK\$3,000,000. The difference will be allocated by the Company to other uses stated in this announcement.

**(4) Purchase of software**

In accordance with the Group's business development plan, the Group will gradually expand its community size and develop more business for the ICS Online Platform, such as sale and leasing of second-hand properties, which has higher demand for software systems. Furthermore, while the purchase of hardware is no longer needed for the carpark management business, as stated in paragraph (2) above, the software platform connection function needs to be enhanced. It is expected that the expenses for such purpose for the next 12 to 18 months will increase from HK\$3,000,000 as stated in the Circular to HK\$5,000,000.

## **II. Implementation of the ICS Online Platform**

### **(1) Marketing expenses for attracting service providers and inviting households to join the ICS Online Platform**

In accordance with the Group's business development plan, it will gradually launch and expand the business of internet home, internet community finance and sale and leasing of second-hand properties. As at 31 August 2016, the Company had utilised approximately HK\$200,000 in marketing expenses. As the Company's ICS Online Platform has service functions to improve user loyalty, the marketing expenses for acquiring users had decreased significantly. Taking into account its business plan, reasonable proportion of internet marketing expenses and its sales targets for the next 12 to 18 months, the Group's planned marketing expenses can be reduced from a total of HK\$88,000,000 as stated in the Circular (total marketing expenses for attracting service providers and inviting households to join the ICS Online Platform as reduced on a proportional basis) to HK\$40,000,000. The difference will be allocated by the Company to other uses stated in this announcement.

### **(2) Expansion of the ICS Online Platform to other housing estates in the PRC**

In accordance with the Group's business development plan, the ICS Online Platform will cover all the Evergrande communities and be expanded to other housing estates in the PRC in 2017. Given the increasing competition in the internet community industry, the ability to record steady growth can become a strong foundation for the Group's core competitiveness. In order to enable the Group to develop high-quality community resources and maintain stable profitability, the amount intended to be used for the expansion into other housing estates in the PRC will be increased from HK\$30,000,000 as stated in the Circular to HK\$50,000,000.

### **(3) Marketing and advertising agency**

Given that the Group's planned development on internet home, internet community finance and sale and leasing of second-hand properties mainly target community property owners, the marketing activities were mainly conducted offline and the main expenses are marketing expenses. As such, the marketing and advertising agency fees were reduced. The Group intends to hire a professional advertising and planning team and public relationship team to improve and promote its brand. It is expected that the expenses for such purpose for the next 12 to 18 months can be reduced from HK\$16,000,000 as stated in the Circular to HK\$2,000,000. The difference will be allocated by the Company to other uses stated in this announcement.

### **III. Development of supporting infrastructure for the participants in the ICS Online Platform**

#### **(1) Purchase of computer servers, computer storage devices and network components**

The Company has utilised approximately HK\$75,000,000 as stated in the Circular for the purchase of computer servers, computer storage devices and network components. As at 31 August 2016, a total of approximately HK\$53,000,000 had been paid, and the remaining approximately HK\$22,000,000 is expected to be paid within the next 2 to 6 months.

#### **(2) Purchase of certain units in a science technology park for the purpose of setting up a cloud computing center, designing and installing a cloud computing center, and purchase of certain computer equipment and data backup solutions**

In accordance with the Group's business development plan, the hardware systems, such as servers purchased by the Company as stated in paragraph (1) above, have been deployed to develop the relevant business and can substantially meet the business development needs of the Group for the next 12 to 18 months. With the long-term interests of the Shareholders in mind, the Company currently does not plan to increase its expenses on cloud computing hardware systems. As such, the Company no longer needs the Data Backup Systems Agreement and the proposed agreement for the purchase of certain units in a science technology park for the purpose of setting up a cloud computing center, designing and installing a cloud computing center, and purchase of certain computer equipment. The proceeds originally intended for such purposes will be allocated by the Company to other uses stated in this announcement.

### **IV. Acquisitions of and investments in selected service providers**

In accordance with the Group's business development plan, the ICS Online Platform will cover all Evergrande communities and be expanded to other housing estates in the PRC in 2017. The Group also made strategic plans for the operation of diversified businesses including internet community services, internet home services, internet community finance services, second-hand property leasing and sale services and more high-quality investment projects. After prudent research and discussion among management of the Group and in view of existing market and industry development trends, the Group plans to constantly improve its business models and actively explore and develop new business models in the next 12 to 18 months by way of (but not limited to) acquisitions, equity or other investments and participation in the cultivation of new projects, as well as selecting high-quality partners, in order to maximize the returns. It is expected that the expenses for such purpose for the next 12 to 18 months will increase from HK\$64,000,000 as stated in the Circular to HK\$307,000,000.

## V. General working capital

As at 31 August 2016, the Company had utilised approximately HK\$500,000 as general working capital. Based on the assessment of future business development, the Group expects the total amount to be utilised as general working capital for the next 12 to 18 months can be reduced from HK\$67,000,000 as stated in the Circular to HK\$50,000,000. The difference will be allocated by the Company to other uses stated in this announcement.

## MAJOR TRANSACTION IN RELATION TO PURCHASE OF TECHNOLOGY EQUIPMENT

As stated in paragraph I(2) in the section headed “Use of proceeds from the Subscription” above, the Company no longer needs resources to upgrade the carpark hardware facilities. The original carpark management plan can be realized through the connection of the Anjubao cloud platform to the platforms of the Company. As such, the Company has never placed and is not planning to place any purchase order with Guangdong Anjubao under the Carpark Management Systems Agreement. Therefore, the Group will let the Carpark Management Systems Agreement lapse in October 2016.

Furthermore, as stated in paragraph III(2) in the section headed “Use of proceeds from the Subscription” above, the hardware systems, such as servers purchased by the Company, can substantially meet the business development needs of the Group for the next 12 to 18 months. As such, the Company has never placed and is not planning to place any purchase order with Guangzhou Gengheima under the Data Backup Systems Agreement. Therefore, the Group will also let the Data Backup Systems Agreement lapse in October 2016.

## GENERAL

Based on the Company’s assessment of business needs and market conditions from time to time and/or if a large number of New Warrants are exercised leading to a substantial increase in the proceeds, the Company may further adjust and modify the planned use of proceeds stated above. Further announcement(s) will be made by the Company to update Shareholders and investors of any significant adjustment or modification as and when appropriate.

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

Hong Kong, 23 September 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, Mr. Chen Haiquan and Professor Shi Zhuomin.*