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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	2020
	RMB'000
Revenue	230,114
Gross profit	110,222
Gross profit margin	47.9%
Net profit	12,022
Net profit margin	5.2%
Basic earnings per share	RMB0.0149 fen
Diluted earnings per share	RMB0.0149 fen

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of HengTen Networks Group Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (together the “**Group**”) for the year ended 31 December 2020 together with comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	2	230,114	337,300
Cost of sales	3	<u>(119,892)</u>	<u>(134,910)</u>
Gross profit		110,222	202,390
Selling and marketing costs	3	(50,417)	(72,771)
Administrative expenses	3	(71,154)	(72,935)
(Net impairment losses)/reversal of impairment losses on financial assets		(4,169)	1,641
Other income	4	18,452	10,324
Other expenses	5	(2,928)	(3,489)
Other gains — net	6	<u>5,174</u>	<u>21,115</u>
Operating profit		5,180	86,275
Finance costs	7	(2,270)	(3,804)
Finance income	7	<u>13,218</u>	<u>26,643</u>
Finance income — net	7	<u>10,948</u>	<u>22,839</u>
Profit before income tax		16,128	109,114
Income tax expenses	8	<u>(4,106)</u>	<u>(17,041)</u>
Profit for the year		<u>12,022</u>	<u>92,073</u>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of debt instruments at fair value through other comprehensive income		(78)	42
Currency translation difference		<u>(47,223)</u>	<u>10,366</u>
Other comprehensive income for the year, net of tax		<u>(47,301)</u>	<u>10,408</u>
Total comprehensive income for the year		<u>(35,279)</u>	<u>102,481</u>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit attributable to:			
Owners of the Company		12,022	90,065
Non-controlling interests		<u>—</u>	<u>2,008</u>
		<u>12,022</u>	<u>92,073</u>
Total comprehensive income attributable to:			
Owners of the Company		(35,279)	100,473
Non-controlling interests		<u>—</u>	<u>2,008</u>
		<u>(35,279)</u>	<u>102,481</u>
Earnings per share for profit attributable to the owners of the Company for the year: (expressed in RMB fen per share)			
	9		
Basic earnings per share		<u>0.0149</u>	<u>0.1118</u>
Diluted earnings per share		<u>0.0149</u>	<u>0.1118</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December	31 December
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		13,338	17,457
Right-of-use assets		12,952	16,364
Intangible assets	<i>10</i>	2,172	2,929
Financial assets at fair value through other comprehensive income		553	631
Prepayments	<i>11</i>	6,595	104
Deferred tax assets		3,280	7,295
		<u>38,890</u>	<u>44,780</u>
Current assets			
Inventories		8,840	30,317
Other current assets	<i>11</i>	21,465	35,401
Trade and other receivables	<i>12</i>	154,987	110,695
Financial assets at fair value through profit or loss		17,967	3,311
Cash and cash equivalents		1,031,092	1,313,301
		<u>1,234,351</u>	<u>1,493,025</u>
Total assets		<u>1,273,241</u>	<u>1,537,805</u>
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	<i>13</i>	161,228	150,172
Share premium	<i>13</i>	4,511,147	4,454,940
Other reserves		46,481	80,890
Accumulated losses		(3,535,688)	(3,544,451)
Total equity		<u>1,183,168</u>	<u>1,141,551</u>

		31 December 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>11,811</u>	<u>6,654</u>
		<u>11,811</u>	<u>6,654</u>
Current liabilities			
Lease liabilities		4,927	13,471
Contract liabilities	2	4,196	18,143
Borrowings		—	53,571
Trade payables	14	8,116	15,554
Other payables	15	60,103	284,229
Current income tax liabilities		<u>920</u>	<u>4,632</u>
		<u>78,262</u>	<u>389,600</u>
Total liabilities		<u>90,073</u>	<u>396,254</u>
Total equity and liabilities		<u>1,273,241</u>	<u>1,537,805</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRS**”) and disclosure requirements of the Hong Kong Companies Ordinance (“**HKCO**”) Cap. 622. The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform
Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Revised Conceptual Framework for Financial Reporting	

The adoption of the above new and amended standards did not have any significant impact on the Group’s accounting policies and did not require retrospective adjustments.

(b) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKFRS 9, HKAS 39, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to HKFRS 3	Business Combinations — Reference to Conceptual Framework	1 January 2022
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Provisions, Contingent Liabilities and Contingent Assets — Onerous Contracts	1 January 2022
Annual Improvements	Annual Improvements to HKFRSs 2018-2020 (amendments)	1 January 2022
Revised Accounting Guideline 5	Merger Accounting for Common Control Combination	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Presentation of Financial Statements on Classification of Liabilities	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective.

2 SEGMENT INFORMATION

(a) Description of segments and principal activities

The chief operating decision-maker (“CODM”) of the Group has been identified as the executive directors of the Company who is 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 two business segments: internet community and related businesses and manufacture and sales of accessories.

The directors of the Company assess the performance of the operating segments based on a measure of segment results. Certain corporate expenses, other income, other gains and finance income — net are not included in the results for each operating segment.

(b) Segment profit/(loss)

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2020 are as follows:

	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
Revenue	185,470	44,644	230,114
Timing of revenue recognition			
At a point	71,038	44,644	115,682
Over time	114,432	—	114,432
	<u>185,470</u>	<u>44,644</u>	<u>230,114</u>
Segment profit/(loss)	<u>31,100</u>	<u>(3,841)</u>	27,259
Unallocated corporate expenses			(13,598)
Unallocated other income			48
Unallocated other gains			1,873
Unallocated finance income-net			<u>546</u>
Profit before income tax			<u>16,128</u>
Depreciation	12,200	1,515	13,715
Amortisation	<u>894</u>	<u>—</u>	<u>894</u>

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2019 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	278,269	59,031	337,300
Timing of revenue recognition			
At a point	59,502	59,031	118,533
Over time	218,767	—	218,767
	<u>278,269</u>	<u>59,031</u>	<u>337,300</u>
Segment profit	<u>84,925</u>	<u>1,816</u>	86,741
Unallocated corporate expenses			(8,169)
Unallocated other income			44
Unallocated other gains			20,649
Unallocated finance income-net			<u>9,849</u>
Profit before income tax			<u>109,114</u>
Depreciation	19,692	1,592	21,284
Amortisation	<u>3,848</u>	<u>—</u>	<u>3,848</u>

(c) **Segment assets and liabilities**

Segment assets and liabilities as at 31 December 2020 are as follows:

	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	<u>205,816</u>	<u>13,293</u>	219,109
Unallocated other receivables and prepayments			1,240
Financial assets at fair value through other comprehensive income			553
Financial assets at fair value through profit or loss			17,967
Deferred tax assets			3,280
Cash and cash equivalents			<u>1,031,092</u>
Consolidated total assets			<u>1,273,241</u>
LIABILITIES			
Segment liabilities	<u>75,434</u>	<u>8,354</u>	83,788
Unallocated other payables			5,365
Current income tax liabilities			<u>920</u>
Consolidated total liabilities			<u>90,073</u>

Segment assets and liabilities as at 31 December 2019 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS			
Segment assets	<u>159,564</u>	<u>18,117</u>	177,681
Unallocated other receivables and prepayments			33,615
Unallocated right-of-use assets			1,971
Financial assets at fair value through other comprehensive income			631
Financial assets at fair value through profit or loss			3,311
Deferred tax assets			7,295
Cash and cash equivalents			<u>1,313,301</u>
Consolidated total assets			<u>1,537,805</u>
LIABILITIES			
Segment liabilities	<u>321,066</u>	<u>10,199</u>	331,265
Unallocated other payables			4,796
Unallocated borrowings			53,571
Unallocated lease liabilities			1,990
Current income tax liabilities			<u>4,632</u>
Consolidated total liabilities			<u>396,254</u>

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

- all assets are allocated to reportable and operating segments, other than certain other receivables and prepayments, certain right-of-use assets, financial assets at FVOCI, financial assets at FVPL, deferred tax assets and cash and cash equivalents; and
- all liabilities are allocated to reportable and operating segments, other than certain other payables, certain borrowings, certain lease liabilities, current income tax liabilities and deferred tax liabilities.

(d) Geographical information

The Group's operations are located in the PRC and Hong Kong for the years ended 31 December 2020 and 2019.

Information about the Group's revenue from external customers is presented based on the location at which the goods or services are delivered or provided.

The Group's total revenue from sales of goods and provision of services by geographical location is detailed below:

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
PRC	193,009	287,160
Europe	17,691	19,386
Hong Kong	14,030	21,779
Others	5,384	8,975
	<u>230,114</u>	<u>337,300</u>

The Group's non-current assets excluding financial assets at FVOCI and deferred tax assets by geographical location of the assets are detailed below:

	31 December 2020 RMB'000	31 December 2019 RMB'000
PRC	32,744	31,148
Hong Kong	2,313	5,706
	<u>35,057</u>	<u>36,854</u>

(e) Liabilities related to contracts with customers

	31 December 2020 RMB'000	31 December 2019 RMB'000
Contract liabilities — Internet community and related businesses	<u>4,196</u>	<u>18,143</u>

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the period		
— Internet community and related businesses	<u>18,143</u>	<u>51,323</u>

Unsatisfied performance obligations

For the Group, they are rendered in short period of time, which is generally less than a year, and the Group has elected the practical expedient for not to disclose the remaining performance obligations for these types of contracts.

3 EXPENSES BY NATURE

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

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Cost of inventories sold	86,388	87,752
Staff costs	85,567	108,736
Rental expense	4,260	4,662
Depreciation of property, plant and equipment	6,332	11,815
Depreciation of right-of-use assets	8,316	9,988
Amortisation of intangible assets (<i>Note 10</i>)	894	3,848
Research and development expenses	7,307	4,861
Software service fee	7,892	1,018
Advertising and promotion costs	9,592	8,212
Travelling expense	5,025	6,936
Legal and professional fees	3,507	3,622
Auditors' remunerations		
— Audit services	2,600	2,600
— Non-audit services	3,826	900
Reversal of provisions and other payables (a)	—	(5,337)
(Net reversal of write-down)/write-down of inventories	<u>(6,150)</u>	<u>4,249</u>

- (a) During the year ended 31 December 2020, the Group assessed on the provisions for other taxes and surcharges. Management considered provisions of approximately RMB nil (for the year ended 31 December 2019: approximately RMB5,337,000) were not necessary and determined to reverse the provisions during the year.

4 OTHER INCOME

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Subleasing income	8,069	2,125
Income from network equipment usage and maintenance service	7,327	7,327
Government grant	2,429	450
Dividend income from financial assets at FVOCI	40	44
Dividend income from financial assets at FVPL	8	—
Sundry income	579	378
	<u>18,452</u>	<u>10,324</u>

5 OTHER EXPENSES

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Subleasing expenses	2,928	1,774
Cost of network equipment usage and maintenance service	—	1,715
	<u>2,928</u>	<u>3,489</u>

6 OTHER GAINS — NET

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Penalty income	2,948	—
Net change in fair value of financial assets at FVPL	1,665	(149)
Net gains on disposal of subsidiaries	—	20,802
Net (losses)/gains on disposal of property, plant and equipment	(6)	16
Sundry gains	567	446
	<u>5,174</u>	<u>21,115</u>

7 FINANCE INCOME — NET

	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>
Finance costs:		
— Interests expenses on borrowings	(1,156)	(2,632)
— Interests expenses on lease liabilities	<u>(1,114)</u>	<u>(1,172)</u>
	<u>(2,270)</u>	<u>(3,804)</u>
Finance income:		
— Interest income on saving deposits	<u>13,218</u>	<u>26,643</u>
Finance income-net	<u><u>10,948</u></u>	<u><u>22,839</u></u>

8 INCOME TAX EXPENSES

	Year ended 31 December 2020 <i>RMB'000</i>	Year ended 31 December 2019 <i>RMB'000</i>
<i>Current income tax</i>		
— Provision for the year	(2,364)	(8,121)
— Adjustments for current income tax of prior years	<u>2,273</u>	<u>3,980</u>
Total current income tax expense	(91)	(4,141)
<i>Deferred income tax</i>	<u>(4,015)</u>	<u>(12,900)</u>
Income tax expenses	<u><u>(4,106)</u></u>	<u><u>(17,041)</u></u>

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the group entities as follows:

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000
Profit before income tax	16,128	109,114
Tax calculated at the tax rates applicable to profits/(losses) in the respective jurisdictions	5,439	20,725
Adjustments for current income tax of prior years	(2,273)	(3,980)
Adjustments for previously recognised tax losses and timing differences	(231)	(7,569)
Income not subject to tax	(207)	(4,930)
Tax losses and temporary differences for which no deferred income tax asset was recognised	2,549	13,613
Reversal of provisions and other payables not subject to tax	—	(1,343)
Expenses not deductible for tax purposes	1,753	721
Utilisation of tax losses previously not recognised	(1,065)	(196)
Utilisation of temporary differences previously not recognised	(1,859)	—
	<u>4,106</u>	<u>17,041</u>

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profit for the year, based on the existing legislation, interpretations and practices in respect thereof. No Hong Kong profits tax has been provided for during the year ended 31 December 2020 (year ended 31 December 2019: nil).

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25%, except for a subsidiary of the Group which is entitled to preferential tax rate applicable to advanced and new technology enterprises of 15% in 2020 (for the year ended 31 December 2019: 15%) on the estimated assessable profit for the year, based on the existing legislation, interpretations and practices in respect thereof.

9 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December 2020	Year ended 31 December 2019
Profit attributable to owners of the Company (RMB'000)	<u>12,022</u>	<u>90,065</u>
Weighted average number of ordinary shares in issue (thousands)	<u>80,613,994</u>	<u>80,571,604</u>
Basic earnings per share (RMB fen per share) for the year	<u>0.0149</u>	<u>0.1118</u>

The weighted average number of ordinary shares adopted in the calculation of basic earnings per share for the years ended 2020 and 2019 have been adjusted for the impact of the bonus element implicit in the discount for the new shares and the new warrants issued by the Company on 26 October 2015.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share warrants. The number of shares that would have been issued assuming the exercise of the share warrants less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December 2020	Year ended 31 December 2019
Profit attributable to owners of the Company (RMB'000)	<u>12,022</u>	<u>90,065</u>
Weighted average number of ordinary shares in issue (thousands)	80,613,994	80,571,604
Adjustments for:		
— Share warrants (thousands)	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>80,613,994</u>	<u>80,571,604</u>
Diluted earnings per share (RMB fen per share) for the year	<u>0.0149</u>	<u>0.1118</u>

The computation of 2020 diluted earnings per share does not assume the exercise of the Company's share warrants since all of the share warrants has been exercised during the year ended 31 December 2020.

The computation of 2019 diluted earnings per share does not assume the exercise of the Company's share warrants since the exercise price was higher than the average market price of the shares during the year ended 31 December 2019.

10 INTANGIBLE ASSETS

	Acquired internet platform RMB'000	Capitalised development costs RMB'000	Patent RMB'000	Total RMB'000
Year ended 31 December 2019				
Opening net book amount	811	3,368	2,598	6,777
Amortisation charge (<i>Note 3</i>)	<u>(634)</u>	<u>(2,947)</u>	<u>(267)</u>	<u>(3,848)</u>
Closing net book amount	<u>177</u>	<u>421</u>	<u>2,331</u>	<u>2,929</u>
At 31 December 2019				
Cost	2,277	10,610	2,668	15,555
Accumulated amortisation	<u>(2,100)</u>	<u>(10,189)</u>	<u>(337)</u>	<u>(12,626)</u>
Net book amount	<u>177</u>	<u>421</u>	<u>2,331</u>	<u>2,929</u>
Year ended 31 December 2020				
Opening net book amount	177	421	2,331	2,929
Additions	100	—	37	137
Amortisation charge (<i>Note 3</i>)	<u>(204)</u>	<u>(421)</u>	<u>(269)</u>	<u>(894)</u>
Closing net book amount	<u>73</u>	<u>—</u>	<u>2,099</u>	<u>2,172</u>
At 31 December 2020				
Cost	2,377	10,610	2,705	15,692
Accumulated amortisation	<u>(2,304)</u>	<u>(10,610)</u>	<u>(606)</u>	<u>(13,520)</u>
Net book amount	<u>73</u>	<u>—</u>	<u>2,099</u>	<u>2,172</u>

Amortisation of approximately RMB625,000 and RMB269,000 were included in “cost of sales” and “administrative expenses” (2019: approximately RMB3,581,000 and RMB267,000 were included in “cost of sales” and “administrative expenses”) respectively in the consolidated statement of comprehensive income (Note 3).

11 OTHER CURRENT ASSETS

	31 December 2020 RMB'000	31 December 2019 RMB'000
Prepayments	25,428	32,393
Deductible input value-added tax	<u>2,632</u>	<u>3,112</u>
	28,060	35,505
Less non-current portion: prepayments (a)	<u>(6,595)</u>	<u>(104)</u>
Current portion	<u>21,465</u>	<u>35,401</u>

(a) Non-current portion of prepayments represents the prepayments for the decoration of right-of-use assets.

12 TRADE AND OTHER RECEIVABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade receivables — gross		
— Third parties	95,783	60,264
Less: allowance for doubtful debts	<u>(7,055)</u>	<u>(5,522)</u>
Trade receivables — net	<u>88,728</u>	<u>54,742</u>
Other receivables due from		
— Related parties	25,137	6,806
— Other third parties	43,407	17,326
— Disposal of subsidiaries	—	31,821
Less: allowance for doubtful debts	<u>(2,285)</u>	<u>—</u>
Other receivables — net	<u>66,259</u>	<u>55,953</u>
Total trade and other receivables	<u>154,987</u>	<u>110,695</u>

(a) Trade and other receivables were denominated in the following currencies:

	31 December 2020 RMB'000	31 December 2019 RMB'000
— RMB	158,884	76,903
— US\$	5,032	6,960
— HK\$	369	32,310
— EUR	42	44
	<u>164,327</u>	<u>116,217</u>

(b) Trade receivables mainly arose from manufacture and sales of accessories and internet platform services. 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.

	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 60 days	60,855	47,018
61 days to 180 days	8,305	1,363
Over 181 days	19,568	6,361
	<u>88,728</u>	<u>54,742</u>

(c) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amounts are considered to be the same as their fair values.

13 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000
At 1 January 2019 and 31 December 2019	<u>74,611,669,087</u>	<u>150,172</u>	<u>4,454,940</u>
Issue of new shares upon exercises of New Warrants	<u>6,191,496,938</u>	<u>11,056</u>	<u>56,207</u>
At 31 December 2020	<u>80,803,166,025</u>	<u>161,228</u>	<u>4,511,147</u>

14 TRADE PAYABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Trade payables	<u>8,116</u>	<u>15,554</u>

Trade payables were denominated in the following currencies:

	31 December 2020 RMB'000	31 December 2019 RMB'000
— RMB	7,578	14,278
— HK\$	472	1,244
— US\$	<u>66</u>	<u>32</u>
	<u>8,116</u>	<u>15,554</u>

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

	31 December 2020 RMB'000	31 December 2019 RMB'000
Within 60 days	4,858	12,472
61 days to 150 days	2,916	1,993
Over 151 days	<u>342</u>	<u>1,089</u>
	<u>8,116</u>	<u>15,554</u>

The average credit period on purchases of goods is 90 days.

15 OTHER PAYABLES

	31 December 2020 RMB'000	31 December 2019 RMB'000
Other payables (i)	44,995	260,439
Accrued expenses	8,251	19,993
Provisions for other taxes	6,550	3,252
Amount due to related parties	307	545
	<u>60,103</u>	<u>284,229</u>

- (i) Majority of other payables represented the proceeds received by the Group on behalf of the household products suppliers and building furnishing materials suppliers.

Other payables and accruals were denominated in the following currencies:

	31 December 2020 RMB'000	31 December 2019 RMB'000
— RMB	57,650	280,101
— HK\$	2,408	4,128
— US\$	45	—
	<u>60,103</u>	<u>284,229</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance Summary

The Group recorded a profit attributable to owners of the Company of approximately RMB12.0 million for the year ended 31 December 2020, which decreased by approximately RMB78.1 million as compared to the profit attributable to owners of the Company of approximately RMB90.1 million for the year ended 31 December 2019. The decrease in the profit attributable to owners of the Company was mainly due to a decrease in profit in the internet community and related services business segment. It contributed to a segment profit of approximately RMB31.1 million for the year ended 31 December 2020 as compared to a segment profit of approximately RMB84.9 million for the year ended 31 December 2019. The basic and diluted earnings per share were RMB0.0149 fen and RMB0.0149 fen for the year ended 31 December 2020 respectively as compared to the basic and diluted earnings per share of RMB0.1118 fen and RMB0.1118 fen for the year ended 31 December 2019.

Internet Community and Related Services

For the year ended 31 December 2020, the Group conducted its internet community and related services business in the communities across China, and its turnover decreased from RMB278.3 million for the year ended 31 December 2019 to RMB185.5 million for the year ended 31 December 2020, including revenue from internet home furnishing sector of RMB104.6 million, revenue from internet materials business sector of RMB79.0 million, and revenue from other sectors of RMB1.9 million. The costs of internet community and related services business are mainly labour costs, depreciation and amortization costs and material procurement costs. During the year, gross profit margin of such segment was approximately 51.7%. After deducting distribution costs and administrative expenses of approximately RMB64.8 million, the segment recorded a profit of approximately RMB31.1 million.

Manufacture and sales of accessories

Turnover of this segment has decreased by approximately 24.4% from RMB59.0 million for the year ended 31 December 2019 to RMB44.6 million for the year ended 31 December 2020.

Gross profit margin recorded for the year ended 31 December 2020 was approximately 32.2%, representing a decrease of approximately 1.6 percentage points as compared to the year ended 31 December 2019.

BUSINESS REVIEW

In 2020, in view of the tough and complex environment at onshore and offshore, particularly the severe impact of the COVID-19 outbreak, the Chinese government coordinated pandemic prevention and control and economic and social development by adhering to the general keynote of seeking progress while maintaining stability. According to data from the National Bureau of Statistics, the gross domestic product (GDP) of China exceeded RMB100 trillion for the first time in 2020, an increase of 2.3% over the previous year. Against the current backdrop of severe pandemic situation worldwide and global economy full of uncertainties, the Chinese economy maintained strong resilience and became a major economy in the world which achieved positive economic growth.

The overall recovery of the Chinese economy and the favorable policies promulgated by the Chinese government provided the Group with a sound support for development. As an Internet technology company, the Group promoted the steady development of the internet home furnishing and internet materials business with technology empowerment, and actively explored new business growth points. During the year, the Company announced its acquisition of the entire issued share capital in Virtual Cinema Entertainment Limited which subsequently completed in January 2021 (the “**Pumpkin Acquisition**”), following which the Group shall fully transform into an internet technology enterprise and progress on its streaming media business.

The Internet Home Furnishing and Internet Materials Business

The internet home furnishing and internet materials business of the Group provide one-stop packaged and fully furnished services with products covering whole-house furnishing categories including building materials, furniture, home appliances and soft decorations, while creating its own brand for the whole-house furniture and customisation, ceramic tiles, wood flooring, bathroom and other categories. As at 31 December 2020, the Group has launched its home building materials business in more than 450 projects in over 200 cities.

Loan financing

During the year ended 31 December 2020, no new loan was granted and therefore no interest income was generated from this segment (the year ended 31 December 2019: nil).

BUSINESS OUTLOOK

Looking forward, the management of the Group believes that the Chinese government is capable of handling regular pandemic prevention and control. China will sustain steady economic recovery, and keep its economic operations within a reasonable range, so as to achieve sustainable and healthy development. The Group will adapt to the new development environment, implement new strategic planning, create a new growth engine, enhance the power and resilience of business development, and promote the sustainable and stable business development of the Group.

Pumpkin Films Limited (“Pumpkin Films”) and Shanghai Ruyi Movie Television Production Co., Ltd.* (上海儒意影視製作有限公司) (“Ruyi Films”)

Actively looking for new business growth points, the Group gave a full play of the internet platforms and the industrial chain ecological advantages of its two major shareholders, namely Evergrande and Tencent, to deploy its internet streaming media business. Through its high-quality original content and big data analysis technology, the Group strives to provide users with ultimate personalized viewing experience without any advertisement. In the future, with the strong support from its two major shareholders Evergrande and Tencent, the Group will give full play to its experience in streaming media platform operation and film and television content production, and seek to develop Pumpkin Films into a world-class streaming media platform with premium technology content, the best film viewing experience and the most subscribers, such that Pumpkin Films can become the signature of the boutique lifestyle.

On 26 October 2020, the Company announced the acquisition of all equity interests in Ruyi Films and Pumpkin Film. The acquisition was completed on 20 January 2021. As disclosed in the announcement of the Company dated 26 October 2020, a total of 18,342,793,070 warrants was issued as part of the total consideration for the Pumpkin Acquisition. Such warrants under each tranche are exercisable by holder thereof subject to fulfilment of the condition that the consolidated net profit after income tax of Virtual Cinema Entertainment Limited and the variable interests entities controlled by it shall equal to or is more than RMB400 million, RMB500 million and RMB600 million for each of the financial years ending 31 December 2021, 2022 and 2023, respectively.

As a vertical subscription-only streaming media platform under HengTen Networks, Pumpkin Films provides global users with premium quality content and ultimate viewing experience through big data analysis and high-quality original content of Ruyi Films while taking excellent Chinese traditional culture as its source of inspiration.

Since the acquisition of Pumpkin Films has been completed, the membership of Pumpkin Films has achieved tremendous growth through empowerment of shareholders and consolidation of ecosystem resources. As at 28 February 2021, the cumulative number of registered members reached 38,617,456, and the cumulative number of paying subscribers reached 8,410,443. In February 2021, there were 2,510,176 new registered members and 2,483,529 new paying subscribers for that month.

The streaming media industry is currently one of the few industries benefiting from times and technology. Consumers are willing to pay for good stories, and long videos have the ability and advantages of telling good stories. Data shows that the compound annual growth rate of the online paid video market will reach 54% from 2015 to 2022. Therefore, the streaming media industry in China has broad development prospects.

Competitive Advantages of Pumpkin Films and Ruyi Films

Technological advantages. Pumpkin Films has developed its core competitiveness with data-driven innovation from the three dimensions consisting of digitization of user behavior, film deconstructing and labeling and customization of content production. For digitization of user behavior, based on the real behavior of a large number of paying users, extensive big data has been accumulated, which is matched with the data of sorted films to understand user preferences and improve the accuracy of recommendation. For film deconstructing and labeling, films are sorted in terms of their levels of action, romance and suspense, as well as their plots, endings, actors, and other dimensions, enabling the recommendation system to understand files with micro tags. For customization of content production, Pumpkin Films precisely customizes high-quality original content and purchases copyrighted dramas in line with users' preference based on the user data analyzed by big data.

Content advantages. With numerous high-quality original content, Ruyi Films played a leading role in the production of more than 50 films and television works, reserved hundreds of film and television copyrights, and won important awards such as Flying Apsaras Awards, Golden Eagle Awards, Magnolia Awards and Huading Awards. Its iconic films include “Hi, Mom” (《你好，李煥英》), “A Little Red Flower” (《送你一朵小紅花》), “So Young” (《致我們終將逝去的青春》) and “Animal World” (《動物世界》). Its signature television dramas include “All Quiet in Peking” (《北平無戰事》), “Nirvana in Fire” (《瑯琊榜》), “Legend of MiYue” (《芈月傳》) and “The Legendary Tavern” (《老酒館》).

In 2021, the representative film “Hi, Mom” (《你好，李煥英》), which Ruyi Films acted as the main producer, recorded a box office of over RMB5.37 billion on the 47th day after its release, and has ranked second in the box office of Chinese movies so far. The film also broke the record of exceeding the box office of RMB5 billion at the fastest pace in Chinese film history. “A Little Red Flower” (《送你一朵小紅花》), a film released by Ruyi Films, recorded a cumulative box office of over RMB1.43 billion and became the top-grossing film on New Year's Day in 2021 in China.

Pumpkin Films owns a large amount of high-standard purchased copyrighted content, and has established long-term cooperation with 143 renowned independent production companies around the world such as those in Hollywood. With analysis of user data, it can screen the film and television works in line with members' preference in a targeted manner, choose the best out of the best purchased copyrights, and regularly select the superior and eliminate the inferior.

Talent advantages. Ruyi Films has a group of experienced and capable producers who can serve the directors well and communicate with the main creators in a professional and meticulous manner, such that the production of films and television dramas can be standardized and refined, which not only ensures the high quality of the production content, but also effectively controls the cost and investment.

Shareholder advantages. The empowerment of shareholders enables the Group to gain the advantages of the industrial chain. Leveraging on the advantages provided by resources of shareholders, the Group will strengthen collaboration with its shareholders. In this regard, the Company will comply with the relevant requirements of Listing Rules.

Internet Home Furnishing and Internet Materials Business

In the future, the internet home furnishing and internet materials business of the Group is expected to gradually serve over 1,300 communities and more than 12 million property owners, pursue the in-depth integration of information technology and business management, and achieve technological empowerment in aspects such as customer acquisition, marketing, operation and service. With the assistance of big data analysis, the Group shall seek to consolidate user profiles from multiple dimensions including age, education and aesthetics for precise matching of customer needs. With the help of new technologies such as VR and AR, users can “visualize thinking and connect with their sight” via online platform.

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder’s equity, borrowings and cash generated from operations. During the year ended 31 December 2020, 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 31 December 2020, the Group maintained cash and bank balance of approximately RMB1,031.1 million (as at 31 December 2019: approximately RMB1,313.3 million). The decrease in cash and bank balance was mainly due to the operation of the internet community and relevant business.

Borrowings and Gearing Ratio

As at 31 December 2020, the Group’s net equity amounted to approximately RMB1,183.2 million (as at 31 December 2019: approximately RMB1,141.6 million) with total assets amounted to approximately RMB1,273.2 million (as at 31 December 2019: approximately RMB1,537.8 million). Net current assets were approximately RMB1,156.1 million (as at 31 December 2019: approximately RMB1,103.4 million) and the current ratio was 15.8 times (as at 31 December 2019: 3.8 times). Gearing ratio calculated on the basis of the Group’s total debts (interest-bearing borrowings and lease liabilities) over shareholders’ funds was 1.4% (as at 31 December 2019: 6.5%).

COMMITMENT

As at 31 December 2020, the Group did not have any capital commitment (as at 31 December 2019: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi (“**RMB**”) as at 31 December 2020. The internet community service business is mainly carried out in RMB in the PRC. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the year ended 31 December 2020, the Group closely monitored the fluctuation and does not expect any material fluctuation of exchange rates in the near future, but will continue to monitor it.

CHARGE OF ASSETS

During the year ended 31 December 2020, the Group did not have any charges on assets.

CONTINGENT LIABILITIES

The Company and the Group did not provide corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 31 December 2020 (as at 31 December 2019: nil).

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 year ended 31 December 2020, no option had been granted and there was no outstanding share option of the Company as at 31 December 2020 (as at 31 December 2019: nil).

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2020, the Group employed approximately 292 employees. 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 and mandatory provident fund, etc. Total staff costs for the year ended 31 December 2020, including directors’ emoluments, amounted to approximately RMB85.6 million (2019: RMB108.7 million).

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

The Pumpkin Acquisition completed on 20 January 2021. For further details on the Pumpkin Acquisition, please refer to the announcements of the Company dated 26 October 2020 and 20 January 2021 and the circular of the Company dated 31 December 2020.

On 20 January 2021, the share consolidation on the basis that every ten (10) issued and unissued then existing shares of the Company be consolidated into one (1) consolidated share of par value HK\$0.02 each in share capital of the Company took effect. For further details of the aforesaid share consolidation, please refer to the announcement of the Company dated 29 December 2020.

REVIEW OF RESULTS

The Audit Committee of the Company consists of three of the independent non-executive directors of the Company, namely Mr. Chau Shing Yim, David, Mr. Nie Zhixin and Mr. Chen Haiquan. The Audit Committee assists the Board in, among others, providing an independent review of the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2020.

The figures in this preliminary announcement of the results of the Group have been agreed to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2020 by the auditor of the Company, PricewaterhouseCoopers. The work of PricewaterhouseCoopers in this respect, did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and, consequently, no assurance will be expressed on the preliminary announcement.

MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2020, saved for the Pumpkin Acquisition as disclosed in this announcement, there was no material acquisition and disposal.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the year ended 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and 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 “Stock Exchange”) (the “Listing Rules”) during the year ended 31 December 2020 except for the following deviation from the Code provision:

- * 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 year ended 31 December 2020, 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.
- * Code provision E.1.2 stipulates that the chairman of the Board shall attend the annual general meeting of the Company. Due to the COVID-19 travel restrictions imposed this year and the need to attend other business matters that had been arranged in advance, Mr. Xu Wen, who had served as a director of the Company during the year ended 31 December 2020, did not attend the Company’s annual general meeting held on 15 June 2020.

COMPLIANCE WITH THE MODEL CODE

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as the Company’s code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, they confirmed that they had complied with the required standards as set out in the Model Code throughout the year ended 31 December 2020.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

The annual results announcement for the year ended 31 December 2020 is also published on the Stock Exchange’s website (<http://www.hkexnews.hk>) and the Company’s website (<http://www.htmimi.com>). The annual report containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and will be available on websites of the Stock Exchange and the Company in due course.

2021 ANNUAL GENERAL MEETING

As at the date of this announcement, the Company has not determined the date when the Company’s 2021 annual general meeting will be held and the relevant book closure arrangement. Further announcement(s) will be made by the Company as and when appropriate in accordance with the Listing Rules.

FORWARD LOOKING STATEMENTS

There can be no assurance that any forward-looking statements regarding the business development of the Group set out in this announcement 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 shareholders, investors, employees and business partners for their continuous support.

By order of the Board
HengTen Networks Group Limited
Xu Wen
Chairman

Hong Kong, 30 March 2021

As at the date of this announcement, the executive directors of the Company are Mr. Xu Wen, Mr. Huang Xiangui, Mr. Wan Chao and Mr. Chen Cong; 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.