

共享經濟集團有限公司

SHARE ECONOMY GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1178)

Interim Report
2016/17



INTERIM RESULT

The board of directors (the "Board") of Share Economy Group Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2016 (the "Period") together with comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Six months ended 31 December | |
|---------------------------------------|-------|---------------------------------|---------------------------------|
| | | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| | Notes | | |
| Revenue | 3 | 36,104 | 38,763 |
| Cost of sales | | (25,121) | (25,892) |
| Gross profit | | 10,983 | 12,871 |
| Other income | | 1,269 | 1,243 |
| Selling and distribution costs | | (2,631) | (2,252) |
| Administrative expenses | | (39,104) | (14,228) |
| Other operating expenses | | – | (2,028) |
| LOSS FROM OPERATING ACTIVITIES | 4 | (29,483) | (4,394) |
| Finance costs | | (8) | (434) |
| LOSS BEFORE INCOME TAX EXPENSE | | (29,491) | (4,828) |
| Income tax expense | 5 | 792 | – |
| LOSS FOR THE PERIOD | | (28,699) | (4,828) |
| ATTRIBUTABLE TO: | | | |
| Owners of the Company | | (27,931) | (4,747) |
| Non-controlling interests | | (768) | (81) |
| LOSS FOR THE PERIOD | | (28,699) | (4,828) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

| | Notes | Six months ended 31 December | |
|---|-------|---------------------------------|---------------------------------|
| | | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| LOSS FOR THE PERIOD | | (28,699) | (4,828) |
| Other comprehensive income: <i>Item that may be reclassified subsequently to profit or loss:</i> Exchange differences arising on translation | | (6,547) | (8,199) |
| Total comprehensive loss for the period, net of tax | | (35,246) | (13,027) |
| LOSS PER SHARE | | | |
| Basic | 7 | HK(0.58) cents | HK(0.18) cents |
| Diluted | | N/A | N/A |
| DIVIDENDS | 6 | – | – |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|-------|--|--|
| | Notes | | |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 1,959 | 2,465 |
| Investment properties | | 37,951 | 38,721 |
| Intangible assets | | 116,980 | 25,725 |
| Available-for-sale investments | | 15,877 | – |
| Goodwill | | 12,742 | 8,541 |
| | | <u>185,509</u> | <u>75,452</u> |
| Current assets | | | |
| Inventories | 9 | 21,641 | 23,951 |
| Trade receivables | 10 | 41,089 | 42,508 |
| Deposits, prepayments and other receivables | | 115,365 | 124,768 |
| Cash and bank balances | | 22,097 | 39,680 |
| | | <u>200,192</u> | <u>230,907</u> |
| Current liabilities | | | |
| Trade payables | 11 | 14,834 | 12,840 |
| Deposits received | | 8,112 | 8,451 |
| Accrued liabilities and other payables | | 8,647 | 4,246 |
| Secured borrowings | 13 | 488 | 5,814 |
| Tax payables | | 128 | 22 |
| | | <u>32,209</u> | <u>31,373</u> |
| Net current assets | | <u>167,983</u> | <u>199,534</u> |
| Total assets less current liabilities | | <u>353,492</u> | <u>274,986</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | | 19,285 | 4,227 |
| Net assets | | <u>334,207</u> | <u>270,759</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|----------------------------------|-------|--|--|
| | Notes | | |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | 14 | 124,107 | 111,407 |
| Reserves | | 204,044 | 158,101 |
| | | 328,151 | 269,508 |
| Non-controlling interests | | 6,056 | 1,251 |
| Total equity | | 334,207 | 270,759 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Statutory reserve | Capital redemption reserve | Share option reserve | Capital reserve | Translation reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
|--|---------------|---------------|-------------------|----------------------------|----------------------|-----------------|---------------------|--------------------|----------|---------------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 July 2015 (Audited) | 62,565 | 240,191 | 8,789 | 29 | - | 28,764 | 15,308 | (191,464) | 164,182 | 1,460 | 165,642 |
| Issue of shares pursuant to subscription | 8,342 | 41,750 | - | - | - | - | - | - | 50,052 | - | 50,052 |
| Share issue expenses | - | (300) | - | - | - | - | - | - | (300) | - | (300) |
| Total comprehensive loss for the period | - | - | - | - | - | - | (8,199) | (4,747) | (12,946) | (81) | (13,027) |
| At 31 December 2015 (Unaudited) | 70,907 | 281,601 | 8,789 | 29 | - | 28,764 | 7,109 | (196,211) | 200,988 | 1,379 | 202,367 |
| At 1 July 2016 (Audited) | 111,407 | 399,845 | 8,789 | 29 | 13,624 | 28,764 | 11,155 | (304,105) | 269,508 | 1,251 | 270,759 |
| Issue of shares pursuant to acquisition | 12,200 | 78,079 | - | - | - | - | - | - | 90,279 | - | 90,279 |
| Issue of share pursuant to share option exercise | 500 | 3,440 | - | - | (1,040) | - | - | - | 2,900 | - | 2,900 |
| Acquisition of subsidiary | - | - | - | - | - | - | - | - | - | 5,515 | 5,515 |
| Total comprehensive loss for the period | - | - | - | - | - | - | (6,605) | (27,931) | (34,536) | (710) | (35,246) |
| At 31 December 2016 (Unaudited) | 124,107 | 481,364 | 8,789 | 29 | 12,584 | 28,764 | 4,550 | (332,036) | 328,151 | 6,056 | 334,207 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Six months ended | |
|---------------------------------------|------------------|-------------|
| | 31 December | |
| | 2016 | 2015 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| NET CASH GENERATED FROM/(USED IN) | | |
| OPERATING ACTIVITIES | 1,110 | (74,097) |
| NET CASH USED IN INVESTING | | |
| ACTIVITIES | (10,493) | (1,426) |
| NET CASH (USED IN)/GENERATED FROM | | |
| FINANCING ACTIVITIES | (2,426) | 49,752 |
| DECREASE IN CASH AND CASH EQUIVALENTS | (11,809) | (25,771) |
| CASH AND CASH EQUIVALENTS AT 1 JULY | 39,680 | 62,946 |
| EFFECT OF FOREIGN EXCHANGE | (5,774) | (8,199) |
| CASH AND CASH EQUIVALENTS | | |
| AT 31 DECEMBER | 22,097 | 28,976 |
| ANALYSIS OF THE BALANCES OF CASH AND | | |
| CASH EQUIVALENTS | | |
| CASH AND BANK BALANCES | 22,097 | 28,976 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

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

These condensed consolidated statements are unaudited but have been reviewed by the Company’s audit committee and external auditor, Elite Partners CPA Limited, of the Company

(b) Principal Accounting Policies

The basis of preparation and accounting policies adopted in preparing these condensed consolidated statements are consistent with those adopted in the preparation of the Group’s annual statements for the year ended 30 June 2016.

In the current Period, the Group has applied the new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by HKICPA which are effective for the Group’s financial year beginning on 1 July 2015. The adoption of the new and revised HKFRSs had no material effect on the condensed consolidated statements of the Group for the current accounting period.

The Group has not early applied the new and revised HKFRSs relevant to the Group’s financial statements, that have been issued but not yet effective in the Period covered by these interim financial statements.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have any significant impact on its results of operations and financial position.

2. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the chief operating decision maker for the purposes of resource allocation and performance assessment.

The six reportable operating segments are listed as follows:

| | |
|------------------------------------|--|
| BIOenergy products: | manufacturing and trading of bedding products, underclothing and body protection accessories containing the BIOenergy compound |
| Healthcare food products: | trading of healthcare food products, including honey and polypeptide products |
| Multi-functional water generators: | manufacturing and trading of multi-functional water generators |
| Property rental: | letting properties for rental income |
| Online services income: | provision of online sharing platform services |
| Others: | trading of other healthcare products and other |

| | BIOenergy products | | Healthcare food products | | Multi-functional water generators | | Property rental | | Online services income | | Others | | Consolidated | |
|---------------------------------|------------------------------|------------------|--------------------------|------------------|-----------------------------------|------------------|------------------|------------------|------------------------|------------------|------------------|------------------|------------------|------------------|
| | Six months ended 31 December | | | | | | | | | | | | | |
| | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 |
| Segment revenue: | | | | | | | | | | | | | | |
| Sales to external customers | 21,522 | 36,322 | 13,831 | 165 | 728 | 1,136 | - | - | 23 | - | - | 1,141 | 36,104 | 38,764 |
| Segment results | (165) | 12,246 | 3,561 | 71 | (3) | 93 | - | - | 3 | - | - | 461 | 3,396 | 12,671 |
| Unallocated other income | | | | | | | | | | | | | 1,269 | 1,243 |
| Unallocated expense | | | | | | | | | | | | | (34,148) | (18,508) |
| Loss from operating activities | | | | | | | | | | | | | (29,483) | (4,394) |
| Finance cost | | | | | | | | | | | | | (8) | (434) |
| Loss before income tax expenses | | | | | | | | | | | | | (29,491) | (4,828) |
| Income tax expenses | | | | | | | | | | | | | 792 | - |
| Loss for the period | | | | | | | | | | | | | (28,699) | (4,828) |

No geographical analysis is presented as over 90% of the Group's revenue and contribution to loss is attributable to markets in the People's Republic of China (the "Mainland China").

3. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold and services rendered, after allowances for returns and trade discounts where applicable. All significant intragroup transactions have been eliminated on consolidation.

Turnover made in the Mainland China is subject to value added tax ("VAT") at a rate of 17% ("output VAT"). Such output VAT is payable after offsetting VAT paid by the Group on purchases ("input VAT").

4. LOSS FROM OPERATING ACTIVITIES

The Group's unaudited loss from operating activities is arrived at after charging:

| | Six months ended 31 December | |
|--|---------------------------------|---------------------------------|
| | 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
| Cost of inventories sold | 24,995 | 25,892 |
| Amortisation of intangible assets | 4,801 | 23 |
| Depreciation of property, plant and equipment | 208 | 1,295 |
| Operating lease charges in respect of land and building | 2,016 | 1,253 |

5. INCOME TAX EXPENSE

No provision of Hong Kong profits tax has been provided as no assessable profits arising in Hong Kong during the Period (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the Period. PRC Enterprise Income Tax has not been provided as the Group had tax loss arising in PRC during the Period (2015: Nil).

6. DIVIDENDS

The Board has resolved not to declare any interim dividend for the Period (2015: Nil).

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the loss attributable to owners for the Period of HK\$27.93 million (2015: loss of HK\$4.75 million) and the weighted average number of 4,833,111,921 (2015: the weighted average number of 2,564,318,724) ordinary shares in issue during the Period.

The diluted loss per share for the period ended 31 December 2016 and 2015 has not been disclosed as there were no potential dilutive shares in issue during the periods.

8. PROPERTY, PLANT AND EQUIPMENT

| | Total HK\$'000 |
|--|---------------------------|
| At 1 July 2016 (audited) | 2,465 |
| Additions | 173 |
| Disposals | (471) |
| Depreciation | 208 |
| At 31 December 2016 (unaudited) | 1,959 |

9. INVENTORIES

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|--|--|
| Raw materials | 5,874 | 5,147 |
| Work in progress | 4,272 | 5,230 |
| Finished goods | 63,124 | 66,792 |
| | <u>73,270</u> | <u>77,169</u> |
| Less: Provision for obsolete and slow-moving finished goods | (55,728) | (55,512) |
| Foreign exchange translation | 4,099 | 2,294 |
| | <u>21,641</u> | <u>23,951</u> |

10. TRADE RECEIVABLES

The credit terms that the Group offers to customers are generally not more than 90 days. Details of the ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) are as follows:

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|--|--|
| Outstanding balances with ages: | | |
| Within 30 days | 10,972 | 36,312 |
| Between 31 to 60 days | 2,104 | 89 |
| Between 61 to 180 days | 27,162 | 459 |
| Over 180 days | 851 | 5,648 |
| | <u>41,089</u> | <u>42,508</u> |

10. TRADE RECEIVABLES (CONTINUED)

Included in the balances are trade receivables with an aggregate carrying amount of HK\$0.85 million (30 June 2016: HK\$5.65 million) which are past due at the reporting date for which the Group has not provided impairment loss as there has been no significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances. No interest is charged on the trade receivables.

11. TRADE PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. The ageing analysis of the Group's trade payables as at the end of reporting periods are as follows:

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|--|--|
| Outstanding balances with ages: | | |
| Within 30 days | 5,817 | 1,597 |
| Between 31 to 60 days | 758 | 489 |
| Between 61 to 180 days | 1,121 | 2,151 |
| Over 180 days | 7,138 | 8,603 |
| | 14,834 | 12,840 |

12. ACQUISITION OF SUBSIDIARIES

On 17 August 2016, the Group completed the acquisition of 100% equity interest in ECrent (Hong Kong) Limited from an independent third party at a total consideration of HK\$84.4 million, which is (i) HK\$5 million in cash and (ii) issuance of 429,196,805 shares of HK\$0.025 each at an issue price of HK\$0.185 per share. As at the date of acquisition, the Company owns 100% share of the entire issued share capital of ECrent (Hong Kong) Limited.

The fair value of the identifiable assets and liabilities of ECrent (Hong Kong) Limited as at date of acquisition were as follows,

| | HK\$'000 |
|---|----------|
| Intangible assets | 96,059 |
| Other receivables | 2,000 |
| Accrued liabilities and other payables | (2,009) |
| Deferred tax liabilities | (15,850) |
| | <hr/> |
| Total identifiable net assets at fair value | 80,200 |
| Goodwill | 4,201 |
| | <hr/> |
| Total consideration | 84,401 |
| | <hr/> |

13. SECURED BORROWINGS

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--------------------|--|--|
| Secured borrowings | 488 | 5,814 |

The secured borrowings as at 30 June 2016 is guaranteed and secured by properties of independent third parties.

The effective interest rate of the borrowings is 13% per annum and repayable within one year.

14. SHARE CAPITAL

| | Number of ordinary shares (Unaudited) | Share capital HK\$'000 (Unaudited) |
|--|---|--|
| Authorised: | | |
| Ordinary shares of HK\$0.025 each | | |
| At 30 June 2016 and 31 December 2016 | <u>20,000,000,000</u> | <u>500,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.025 each | | |
| At 30 June 2016 | 4,456,291,922 | 111,407 |
| Issue of shares pursuant to acquisition | 487,992,111 | 12,200 |
| Issue of shares pursuant to share option exercise | <u>20,000,000</u> | <u>500</u> |
| At 31 December 2016 | <u>4,964,284,033</u> | <u>124,107</u> |

15. OPERATING LEASE COMMITMENTS

The Group as lessee

The Group leases certain of its offices and warehouses under non-cancellable operating lease arrangements with lease terms ranging from one to five years.

As at 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|--|--|
| Within one year | <u>8,065</u> | 2,660 |
| In the second to fifth years inclusive | <u>3,758</u> | 1,443 |
| | <u>11,823</u> | <u>4,103</u> |

15. OPERATING LEASE COMMITMENTS (CONTINUED)**The Group as lessor**

As at 31 December 2016, the Group had contracted with tenants for the following minimum lease payments under non-cancellable operating leases in respect of the rented premises which fall due as follows:

| | 31 December 2016 (Unaudited) HK\$'000 | 30 June 2016 (Audited) HK\$'000 |
|--|--|--|
| Within one year | – | 558 |
| In the second to fifth years inclusive | – | 10,588 |
| | <u>–</u> | <u>11,146</u> |

Lease is negotiated for an average term of 1 year.

16. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following material transactions with certain related parties:

Compensation of Key Management Personnel of the Group:

| | Six months ended 31 December 2016 (Unaudited) HK\$'000 | 2015 (Unaudited) HK\$'000 |
|---|---|---------------------------------|
| Total remuneration of directors and other members of key management during the period | | |
| — Short term employee benefits | 4,467 | 4,329 |
| — Pension scheme contribution | 7 | 23 |
| | <u>4,474</u> | <u>4,352</u> |

17. EVENTS AFTER REPORTING PERIOD

1. On 14 February 2017, the Company entered into a Supplemental MOU with the Vendor further to the Company's announcement dated 10 September 2016 regarding the MOU entered into by the Company and the Vendor, in order to commence due diligence and business review during the 180-day exclusivity period, as well as set out the principal terms of the Proposed Acquisition.

ECrent Group, which together with its affiliates across the globe, is primarily engaged in operating an online global sharing platform worldwide. Pursuant to the Supplemental MOU, the Company intended to purchase and the Vendor intended to sell a certain percentage (up to a maximum of 100%) in shareholding interest of the Target Company, being the sole holding company of the PRC Business.

2. On 16 February 2017, the Company entered into a MOU with a Vendor in relation to the proposed acquisition of 70% shareholding interest in Touch Media. Touch Media is a leading in-taxi interactive media company in Hong Kong. Touch Media provides diversified mobile service network to taxi passengers, based on their unique advantages of interactive technology, location based services and outdoor digital media network. Touch Media provides the combination with interactive technology of mobile phone terminal, a richer marketing service mode with the accumulation of smart data base, to create a closed-loop business model integrating O2O and smart consumption data. Touch Media is covering approximately 2,000 taxi in Hong Kong, and plan to expand into more taxi and other public vehicles market. Touch Media is developing an in-vehicle electronic payment system, which will provide passengers with another convenience payment method, and also facilitate payments for online rental and ecommerce through the interactive media.
3. On 20 February 2017, the Company entered into the Framework Agreement with Vantage for the development and promotion of Sharing Bike. The Company will primarily be responsible for the establishment of business partnership with bicycle rental vendor, promotion of personal bicycle rental supplier market and the channel development of the Sharing Bike device, while Vantage will primarily be responsible for the development of the mobile application, the establishment of the online platform and the routine operation and maintenance of Sharing Bike.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

For the six months ended 31 December, 2016, total revenue of the Group declined 6.9% compared with same period of last year, which is mainly attributable to tough market environment in the BIOenergy products segment. Healthcare food sales, however, started to replace part of the BIOenergy products segment to build the Group's revenue base, which represents the Group's successful business strategy through new ventures and acquisitions. Still, the overall challenging business environment for traditional industries in Hong Kong and mainland China resulted in the decrease in overall revenue.

On the other hand, the Company has made a further step of development into a new business area of Technology, Media, Telecom ("TMT") sector during the period under review. In view of the market trends and development of online business, the Company completed the acquisition of 100% equity interests in ECrent (Hong Kong) Limited and 0.45% equity interests in ECrent (America) Company Limited in August 2016. They run an online rental platform business ("ECrent platform") under the ECrent license in Hong Kong and the United States respectively.

The Group began its investment and development direction of sharing economy since the acquisition of ECrent (Hong Kong) during the period under review. ECrent platform matches and catches the most updated trends and opportunity in today's well known online technology platform as most individual daily practices and commonly use mobile device to complete their daily living needs, including communication, searching information, shopping, travelling, and work etc. ECrent platform is built to solve the issues such as products varieties and geographic restrictions that created inconvenience for users. It also encourages the idea of sharing economy, reduces wastage of resources, and at the same time creates opportunities for individuals or companies to benefit from renting out idle items and services.

ECrent (Hong Kong) was in early stage of building up the mass market of online rental platform in Hong Kong. Therefore, the financial figures are not prominent. However, the ECrent platform has achieved extremely remarkable page views per month and a large number and a wide variety of items uploaded for rental.

FINANCIAL REVIEW

The Group's consolidated revenue was HK\$36.10 million, 6.9% lower than the same period of last year. Gross profit reached HK\$10.98 million, slight lower than the same period in 2015, with a gross margin of 30.42%.

The Group registered a consolidated loss of HK\$28.70 million for the six months ended 31 December, 2016, an increase of HK\$23.87 million as compared with the same period of last year. As a result, loss attributable to the owners of the Company was HK\$27.93 million, representing a significant increase of 488% from HK\$4.75 million for the same period last year. However, there is already improvement over the operating results when compared with the immediate preceding six months period.

Selling and distribution costs for the six months ended 31 December 2016 amounted to HK\$2.63 million, representing an increase of 16.8% from HK\$2.25 million. This is the result of increasing in advertising and promotion expenses.

Administrative expenses increased by 174.8% during the period under review, to HK\$39.10 million as compared with HK\$14.23 million of same period last year, which was mainly attributable to the additional staff costs and benefit payment.

Financial expenses of less than HK\$0.01 million was paid as interest for the secured borrowing for the six months ended 31 December 2016. Also, over 90% of the secured borrowing was repaid during the period under review.

FUTURE PROSPECTS

Development and adoption of products, services, business models and business platforms which are innovative and value adding to human living have become a primary business objective of the Group, which is believed to drive business breakthrough of the Group in the modern business world. Facing the various challenges in the traditional industries the Group has invested in, the Group shall continue to be proactively but cautiously monitor the business development of the Group, as well as continual search of new and more promising projects that can strengthen the Group's revenue base. The Xiao Fei Bao project, which adopts a Factory-to-Customer ("F2C") on-line off-line business platform would be another new investment of the Group which is believed to deliver business contributions to the Group in the near future.

FUTURE PROSPECTS (CONTINUED)

It is anticipated that the business of ECrent (Hong Kong) will grow rapidly from year 2017 due to continuous marketing effort, increasing number of users, and introduction of various business model such as “Home platform”, “Regional site”, “Online Store”, and portable batteries rental collaboration with retail chain convenience stores.

The Group maintains its cautiously optimistic outlook for the new business and is also prepared to deploy new resources to support any new opportunities that may arise.

FOREIGN EXCHANGE RISK AND MANAGEMENT

The majority of the Group’s operations are located in Mainland China, and the main operational currencies are Hong Kong Dollars and Renminbi. The Company is paying regular and active attention to Renminbi exchange rate fluctuations and consistently assess exchange risks.

LIQUIDITY AND FINANCIAL RESOURCES

The gearing ratio, total secured borrowings divided by total assets at the end of each period, was 0.13% as at 31 December 2016 (30 June 2016: 1.90%), the decrease is due to the settlement of the secured borrowings during this period.

The Group continued to have no structured investment products, foreign exchange contracts and investments in listed shares, bonds and debentures.

As at 31 December 2016, other than the “Events After Reporting Period” being disclosed in this report, the Group had no other material capital commitments (30 June 2016: Nil) or investment commitments. The operating lease commitment for the Group as at 31 December 2016 was around HK\$11.55 million (30 June 2016: HK\$4.10 million).

It is the Group’s policy to adopt a prudent financial management strategy and maintain a suitable level of liquidity to meet operation requirements and to capture acquisition requirements.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for this reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group employed a total of 160 (30 June 2016: 81) employees, of which 122 were working in Mainland China (30 June 2016: 61) and 38 (30 June 2016: 20) were stationed in Hong Kong. The total salaries (excluding directors' emoluments) for the period was HK\$18.49 million (30 June 2016: HK\$1.11 million). Remuneration packages comprises salary, mandatory provident fund, bonus, statutory contributions, medical allowance and share options.

CONTINGENT LIABILITIES

Neither the Group nor the Company had any significant contingent liabilities at the end of the reporting period.

CAPITAL STRUCTURE

During the six months ended 31 December 2016, the Company issued 487,992,111 and 20,000,000 shares for partly settlement of acquisition of ECrent (Hong Kong) Limited, ECrent (America) Company Limited and exercise of share option respectively. The number of the Company's issued shares increased from 4,456,291,922 to 4,964,284,033 during the Period accordingly.

The Company issued 487,992,111 shares in partial settlement of purchase consideration for HK\$90,278,540 on the basis of HK\$0.185 per share. The acquisition was completed on 17 August 2016.

The proceeds raised by the Company from the exercise of share option amounted to HK\$2,900,000 on 30 December 2016. The exercise price of the share option is HK\$0.145. The proceeds were used as general working capital.

References were made to the disclosure of usages of net proceeds on subscription of new shares and placing agreement on 28 May 2015 and 4 November 2015 respectively. As shown in the 2016 Annual Report, the remaining balance of about HK\$119.87 million was used to settle trade and other payables; deposit for proposed acquisition and spend for trading operation of honey products business for HK\$41.51 million, HK\$20 million and HK\$18.68 million respectively leaving the balance thereafter for HK\$39.68 million.

During the six months ended 31 December 2016, the Group made further payment of HK\$5 million for the balance of the acquisition of equity interests in ECrent Hong Kong and ECrent USA. A further of HK\$22.82 million were paid for trading operation of honey and related products business and HK\$11.86 million was used on general and administrative expenses by the Group.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting on 2 December 2014, the Company adopted a new share option scheme (the "New Scheme"). Under the New Scheme, the directors of the Company may, at their absolute discretion, grant options to directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue on date of the aforesaid annual general meeting.

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting on 31 December 2015 and 29 December 2016, the Company adopted the refreshment of the limit on the grant of option under the Share Option Scheme as per New Scheme.

During the Period, a total of 20,000,000 share options were exercised pursuant to the New Scheme but remained 242,060,000 share options not yet exercised as at 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 December 2016, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Overview of Corporate Governance

The Company recognises the importance of the provision of transparency and accountability to its shareholders. The Company is committed to achieving high standards of corporate governance and believes that sound corporate governance is essential for the Company to maximize shareholders' value.

Code on Corporate Governance Practices

During the six months ended 31 December 2016, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the time being in force during the six months ended 31 December 2016.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code for securities transactions by Directors. All members of the Boards have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code during the six months ended 31 December 2016.

Independent Non-executive Directors

The board of directors has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the board of directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialised in accounting or relevant financial management.

The Company has received the confirmation of each of the independent non-executive directors confirming that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

Audit Committee

The Company has established an audit committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the board of directors.

The audit committee comprises Mr. Wong Tat Yan Paul (chairman of the committee), Mr. Su Rujia and Dr. Wang Edward Xu, all of whom are independent non-executive directors of the Company. Mr. Wong Tat Yan Paul possesses appropriate professional accounting qualifications and related financial management expertise as required under rules 3.10(2) of the Listing Rules.

The audit committee and external auditor, Elite Partners CPA Limited, together with the management team of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed accounting issues, internal control and financial reporting matters with the Directors, including a review of the unaudited interim report for the six months ended 31 December 2016.

Changes in information of directors

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the changes in information of directors of the Company subsequent to the date of the 2016 Annual Report is set out below:

- (i) Mr. Zhou Guohua was appointed as executive director on 8 August 2016 with a monthly salary for HK\$380,000.
- (ii) Mr. Yip Tak Yin Parkson was appointed as executive director on 4 November 2016 with a monthly salary for HK\$80,000. Mr. Yip Tak Yin Parkson was further appointed as co-chairman on 14 December 2016.
- (iii) Mr. Chan Shun Yee whose salary was adjusted to HK\$20,000 per month was re-designated from an executive director to a non-executive director with effect from 4 November 2016.
- (iv) Mr. Su Rujia stepped down as the Chairman but remained as an independent non-executive director on 1 December 2016.

- (v) Mr. Wang Jingan was appointed as executive director and the Chairman on 1 December 2016 with a monthly salary for HK\$200,000. Mr. Wang Jingan was further appointed as co-chairman on 14 December 2016.
- (vi) Mr. Liu Min's salary was adjusted to HK\$200,000 per month with effect from 1 December 2016.
- (vii) Mr. Chau Yu-Lung Jimmy, being non-executive director, resigned on 1 December 2016.
- (viii) Dr. Wang Edward Xu was appointed as independent non-executive director on 14 December 2016 with a monthly salary for HK\$12,000.
- (ix) Ms. Zhu Yanzhou, being independent non-executive director, resigned on 14 December 2016.

MEMBERS OF THE BOARD

As at the date of this interim report, the Board comprises Mr. Xu Zhifeng, Mr. Liu Min, Mr. Zhou Guohua, Mr. Yip Tak Yin Parkson and Mr. Wong Jingan as executive Directors; Mr. Chan Shun Yee as non-executive Director; and Mr. Su Rujia, Mr. Wong Tat Yan Paul and Dr. Wong Edward Xu as independent non-executive Directors.

By Order of the Board
Share Economy Group Limited
Xu Zhifeng
Executive director

Hong Kong, 28 February 2017