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FORTUNET E-COMMERCE GROUP LIMITED

鑫網易商集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue of the Group decreased by 48% to RMB122.9 million for the six months ended 30 June 2017 (30 June 2016: RMB234.2 million).
- The Group recorded a profit of RMB49.4 million for the six months ended 30 June 2017 (30 June 2016: loss of RMB31.2 million).
- Net profit attributable to equity shareholders of the Company amounted to RMB86.2 million for the six months ended 30 June 2017 (30 June 2016: net loss of RMB6.1 million).
- Basic and diluted earnings per share for the six months ended 30 June 2017 amounted to RMB4.74 cent and RMB3.33 cent respectively (30 June 2016: basic and diluted loss per share of RMB0.40 cent).
- Cash and cash equivalents increased by RMB416.5 million for the six months ended 30 June 2017.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

The board (the “**Board**”) of directors (the “**Directors**”) of Fortunet e-Commerce Group Limited (the “**Company**”) presents herewith the unaudited consolidated interim financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017. The interim financial information have not been audited, but have been reviewed by the Company’s auditors, KPMG, who conducted the review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants, and the audit committee of the Company (the “**Audit Committee**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi (“RMB”))*

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Revenue	4(a)	122,858	234,240
Cost of sales		(128,595)	(223,630)
Gross (loss)/profit	4(a)	(5,737)	10,610
Other income	5	225	20,315
Selling and distribution expenses		(7,302)	(18,591)
Administrative expenses		(56,205)	(26,875)
Research and development costs		(7,360)	(15,945)
(Impairment losses)/reversal of impairment losses	6	(9,129)	14,221
Loss from operations		(85,508)	(16,265)
Finance income/(costs)	7(a)	9,361	(23,780)
Gain on disposal of subsidiaries	8	141,495	–
Profit/(loss) before taxation	7	65,348	(40,045)
Income tax	9	(15,904)	8,831
Profit/(loss) and total comprehensive income for the period		49,444	(31,214)
Attributable to:			
Equity shareholders of the Company		86,191	(6,136)
Non-controlling interests		(36,747)	(25,078)
Profit/(loss) and total comprehensive income for the period		49,444	(31,214)
Earnings/(loss) per share			
Basic (RMB cent)	10(a)	4.74	(0.40)
Diluted (RMB cent)	10(b)	3.33	(0.40)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

(Expressed in RMB)

	<i>Note</i>	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	11	8,903	82,970
Lease prepayments	12	–	11,207
Intangible assets	13	17,834	22,667
Goodwill	14	46,169	61,013
Deferred tax assets	24	33,940	50,487
		<u>106,846</u>	<u>228,344</u>
Current assets			
Inventories	15	1,853	29,259
Trade and other receivables	16	61,081	315,373
Assets classified as held-for-sale	17	–	70,398
Pledged bank deposits		30	461
Cash and cash equivalents	18	506,454	90,002
		<u>569,418</u>	<u>505,493</u>
Current liabilities			
Trade and other payables	19	6,246	159,511
Bank and other loans	20(a)	–	195,665
Secured notes	21	–	141,161
Convertible bonds	22	88,100	115,976
Provisions	23	–	30,965
		<u>94,346</u>	<u>643,278</u>
Net current assets/(liabilities)		<u>475,072</u>	<u>(137,785)</u>
Total assets less current liabilities		<u>581,918</u>	<u>90,559</u>
Non-current liabilities			
Deferred tax liabilities	24	2,634	3,946
NET ASSETS		<u>579,284</u>	<u>86,613</u>
CAPITAL AND RESERVES			
Share capital	25	118,613	108,209
Reserves		425,892	66,798
Total equity attributable to equity shareholders of the Company		<u>544,505</u>	<u>175,007</u>
Non-controlling interests		<u>34,779</u>	<u>(88,394)</u>
TOTAL EQUITY		<u>579,284</u>	<u>86,613</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Attributable to equity shareholders of the Company						Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserves RMB'000	Other reserve RMB'000	Accumulated losses RMB'000			
Balance at 1 January 2016	98,557	787,138	226,982	149,020	(7,703)	(1,160,133)	93,861	(21,770)	72,091
Changes in equity for the six months ended 30 June 2016:									
Loss and total comprehensive income for the period	-	-	-	-	-	(6,136)	(6,136)	(25,078)	(31,214)
Effect on equity arising from acquisition of additional interest in a subsidiary	-	-	-	-	2,893	-	2,893	(2,893)	-
Effect on equity arising from capital injection from non-controlling equity shareholder into a subsidiary	-	-	-	-	-	-	-	32	32
Balance at 30 June 2016 and 1 July 2016	98,557	787,138	226,982	149,020	(4,810)	(1,166,269)	90,618	(49,709)	40,909
Changes in equity for the six months ended 31 December 2016:									
Loss and total comprehensive income for the period	-	-	-	-	-	(170,468)	(170,468)	(38,685)	(209,153)
Issuance of shares (Note 25(b))	9,652	234,132	-	-	-	-	243,784	-	243,784
Equity-settled share-based transaction (Note 25(c))	-	-	11,073	-	-	-	11,073	-	11,073
Balance at 31 December 2016	<u>108,209</u>	<u>1,021,270</u>	<u>238,055</u>	<u>149,020</u>	<u>(4,810)</u>	<u>(1,336,737)</u>	<u>175,007</u>	<u>(88,394)</u>	<u>86,613</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)*For the six months ended 30 June 2017 – unaudited**(Expressed in RMB)*

	Attributable to equity shareholders of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Surplus reserves	Other reserve	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2017	108,209	1,021,270	238,055	149,020	(4,810)	(1,336,737)	175,007	(88,394)	86,613
Changes in equity for the six months ended 30 June 2017:									
Profit/(loss) and total comprehensive income for the period	-	-	-	-	-	86,191	86,191	(36,747)	49,444
Effect on equity arising from capital injections from non-controlling equity shareholders into subsidiaries	-	-	-	-	-	-	-	159,920	159,920
Issuance of shares (Note 25(b))	10,404	252,482	-	-	-	-	262,886	-	262,886
Equity-settled share-based transaction (Note 25(c))	-	-	20,421	-	-	-	20,421	-	20,421
Balance at 30 June 2017	118,613	1,273,752	258,476	149,020	(4,810)	(1,250,546)	544,505	34,779	579,284

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2017 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June	
		2017 RMB'000	2016 RMB'000
Operating activities			
Cash used in operations		(44,817)	(48,270)
Income tax paid		–	–
Net cash used in operating activities		(44,817)	(48,270)
Investing activities			
Payments for purchase of property, plant and equipment and intangible assets		(5,612)	(23,526)
Proceeds from disposal of property, plant and equipment		249	–
Proceeds from disposal of assets and liabilities classified as held-for-sale		–	4
Payments for disposal of subsidiaries, net of cash disposal of		(401)	–
Loan to a third party		(49,605)	–
Other cash flows arising from investing activities		96	16
Net cash used in investing activities		(55,273)	(23,506)
Financing activities			
Proceeds of new bank and other loans		60,429	104,636
Repayment of bank and other loans		(54,505)	(90,551)
Proceeds from the issuance of shares, net of transaction costs	25(b)	503,864	–
Capital injection from non-controlling equity shareholders		159,920	32
Repayment of secured notes	21	(137,747)	–
Other cash flows arising from financing activities		(9,153)	(17,832)
Net cash generated from/(used in) financing activities		522,808	(3,715)
Net increase/(decrease) in cash and cash equivalents		422,718	(75,491)
Cash and cash equivalents at 1 January	18	90,002	195,632
Effect of foreign exchange rate changes		(6,266)	3,074
Cash and cash equivalents at 30 June	18	506,454	123,215

NOTES

(Expressed in RMB unless otherwise indicated)

1 Corporate information

Fortunet e-Commerce Group Limited (the “Company”) was incorporated in the Cayman Islands on 21 May 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 24 September 2010. The condensed consolidated financial statements of the Company as at and for the six months ended 30 June 2017 comprise the Company and its subsidiaries (collectively referred to as the “Group”).

Upon disposal of the Group’s manufacture and sale of axles business during the current period, the principal activities of the Group are the trading of goods through operation of electronic distribution platforms, mobile applications and other related means in the People’s Republic of China (the “PRC”). The Group is also in the process in developing an electronic trading platform, in which to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions.

2 Basis of preparation

This interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It was authorised for issue on 18 August 2017.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial information as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company’s registered office. The Company’s auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2017.

3 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial information.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 Segment reporting

The Group manages its businesses by lines of business. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

- E-commerce business: this segment trades goods through electronic distribution platforms, mobile applications and other related means.
- Axle business: this segment manufactures and sells axles and related components to truck manufacturers and after-sales services market. This segment has been disposed of during the current period.

No operating segments have been aggregated to form the above reportable segments.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and expenses incurred by those segments. No inter-segment sales have occurred for the six months ended 30 June 2017 and 2016. The Group's other operating expenses, such as selling and distribution expenses, administrative expenses, research and development costs, impairment losses and finance income/costs, are not measured under individual segments. The measure used for reporting segment result is gross profit/(loss).

Segment assets and liabilities include all assets and liabilities with the exception of assets and liabilities classified as held-for-sale, bank and other loans, secured notes, convertible bonds and unallocated corporate assets and liabilities.

4 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below.

	Six months ended 30 June 2017		
	E-commerce business RMB'000	Axle business RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	<u>90,207</u>	<u>32,651</u>	<u>122,858</u>
Reportable segment gross loss	<u>(795)</u>	<u>(4,942)</u>	<u>(5,737)</u>
	At 30 June 2017		
	E-commerce business RMB'000	Axle business RMB'000	Total RMB'000
Reportable segment assets	<u>357,480</u>	<u>–</u>	<u>357,480</u>
Reportable segment liabilities	<u>44,709</u>	<u>–</u>	<u>44,709</u>
	Six months ended 30 June 2016		
	E-commerce business RMB'000	Axle business RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	<u>199,099</u>	<u>35,141</u>	<u>234,240</u>
Reportable segment gross (loss)/profit	<u>(1,358)</u>	<u>11,968</u>	<u>10,610</u>
	At 31 December 2016		
	E-commerce business RMB'000	Axle business RMB'000	Total RMB'000
Reportable segment assets	<u>233,800</u>	<u>171,560</u>	<u>405,360</u>
Reportable segment liabilities	<u>36,004</u>	<u>173,524</u>	<u>209,528</u>

4 Segment reporting (continued)

(b) Reconciliations of reportable segment assets and liabilities

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Assets		
Reportable segment assets	357,480	405,360
Assets classified as held-for-sale	–	70,398
Unallocated head office and corporate assets	368,616	302,961
Elimination of receivables between segments, and segments and head office	<u>(49,832)</u>	<u>(44,882)</u>
Consolidated total assets	<u>676,264</u>	<u>733,837</u>
Liabilities		
Reportable segment liabilities	44,709	209,528
Bank and other loans	–	195,665
Secured notes	–	141,161
Convertible bonds	88,100	115,976
Unallocated head office and corporate liabilities	14,003	29,776
Elimination of payables between segments, and segments and head office	<u>(49,832)</u>	<u>(44,882)</u>
Consolidated total liabilities	<u>96,980</u>	<u>647,224</u>

5 Other income

	<u>Six months ended 30 June</u>	
	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Net (loss)/gain on disposal of property, plant and equipment and assets and liabilities classified as held-for-sale	(2,360)	19,457
Government grants	1,171	385
Others	<u>1,414</u>	<u>473</u>
	<u>225</u>	<u>20,315</u>

6 Impairment losses/(reversal of impairment losses)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Impairment losses on property, plant and equipment	–	9,662
Reversal of impairment losses on trade and other receivables <i>(Note 16(b))</i>	(5,715)	(25,292)
Impairment losses on goodwill <i>(Note 14)</i>	14,844	–
Impairment losses on assets classified as held-for-sale	–	1,409
	9,129	(14,221)

7 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance (income)/costs:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest on bank and other loans	5,324	8,638
Finance charges on secured notes	883	9,436
Finance charges on convertible bonds <i>(Note 22)</i>	5,824	5,314
	12,031	23,388
Net foreign exchange loss	6,340	1,641
Gain on redemption of secured notes <i>(Note 21)</i>	(1,228)	–
Changes in fair value on the derivative components of convertible bonds <i>(Note 22)</i>	(26,504)	(1,249)
	(9,361)	23,780

(b) Staff costs:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Salaries, wages and other benefits	23,118	27,328
Contributions to defined contribution retirement plans	1,428	2,072
Equity-settled share-based payment expenses <i>(Note 25(c))</i>	20,421	–
	44,967	29,400

7 Profit/(loss) before taxation (continued)

(c) Other items:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cost of inventories (<i>Note 15(b)</i>)	128,514	223,110
Depreciation and amortisation	9,980	13,996
Operating lease charges in respect of properties	5,792	4,076
	<u>134,286</u>	<u>241,182</u>

8 Gain on disposal of subsidiaries

On 28 April 2017, the Group disposed of the entire equity interests in Chang Feng Holding (Hong Kong) Limited (“Chang Feng Hong Kong”) and its subsidiaries (together the “Chang Feng Group”) to a third party for a consideration of HK\$5,000 (equivalent to approximately RMB4,000). The carrying value of the net liabilities of the Chang Feng Group as at 28 April 2017 amounted to RMB141,491,000. Accordingly, the Group recognised a gain on disposal of subsidiaries of RMB141,495,000 during the six months ended 30 June 2017.

9 Income tax

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current taxation	–	908
Deferred taxation (<i>Note 24</i>)	15,904	(9,739)
	<u>15,904</u>	<u>(8,831)</u>

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2017 (six months ended 30 June 2016: 16.5%).

The Company and the subsidiaries of the Group incorporated in the Cayman Islands and the British Virgin Islands, respectively, are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2017 (six months ended 30 June 2016: 25%).

10 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The basic earnings per share for the six months ended 30 June 2017 is calculated based on the profit attributable to the equity shareholders of the Company of RMB86,191,000 (six months ended 30 June 2016: loss attributable to the equity shareholders of the Company of RMB6,136,000) and the weighted average number of ordinary shares of 1,818,945,000 (six months ended 30 June 2016: 1,532,727,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares:

	Six months ended 30 June	
	2017	2016
	'000	'000
Issued ordinary shares at 1 January	1,671,615	1,532,727
Effect of shares issued (<i>Note 25(b)</i>)	147,330	–
Weighted average number of ordinary shares at 30 June	<u>1,818,945</u>	<u>1,532,727</u>

(b) Diluted earnings/(loss) per share

The diluted earnings per share for the six months ended 30 June 2017 is calculated based on the profit attributable to equity shareholders of the Company (diluted) of RMB62,786,000 and the weighted average number of ordinary shares (diluted) of 1,883,521,000, calculated as follows:

(i) Profit attributable to the equity shareholders of the Company (diluted)

	Six months ended 30 June 2017 RMB'000
Profit attributable to the equity shareholders of the Company	86,191
After tax effect of effective interest and exchange differences on the liability component of convertible bonds	4,246
After tax effect of changes in fair value recognised and exchange differences on the derivative components of convertible bonds	<u>(27,651)</u>
Profit attributable to the equity shareholders of the Company (diluted)	<u>62,786</u>

10 Earnings/(loss) per share (continued)

(b) Diluted earnings/(loss) per share (continued)

(ii) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June 2017 '000
Weighted average number of ordinary shares at 30 June	1,818,945
Effect of conversion of convertible bonds	<u>64,576</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u><u>1,883,521</u></u>

There were no dilutive potential shares outstanding during the six months ended 30 June 2016.

The Group's share options granted could potentially dilute basic earnings/(loss) per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive during the six months ended 30 June 2017.

11 Property, plant and equipment

	Plant and buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At 1 January 2016	78,735	213,983	18,641	311,359
Additions	211	10,005	785	11,001
Disposals	<u>—</u>	<u>(27,632)</u>	<u>(35)</u>	<u>(27,667)</u>
At 31 December 2016	<u>78,946</u>	<u>196,356</u>	<u>19,391</u>	<u>294,693</u>
Accumulated depreciation and impairment:				
At 1 January 2016	(46,925)	(150,062)	(4,844)	(201,831)
Charge for the year	(2,808)	(10,183)	(4,647)	(17,638)
Impairment losses	(4,504)	(8,891)	(351)	(13,746)
Written back on disposals	<u>—</u>	<u>21,484</u>	<u>8</u>	<u>21,492</u>
At 31 December 2016	<u>(54,237)</u>	<u>(147,652)</u>	<u>(9,834)</u>	<u>(211,723)</u>
Carrying amount:				
At 31 December 2016	<u><u>24,709</u></u>	<u><u>48,704</u></u>	<u><u>9,557</u></u>	<u><u>82,970</u></u>

11 Property, plant and equipment (continued)

	Plant and buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles and other equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At 1 January 2017	78,946	196,356	19,391	294,693
Additions	1,969	302	3,341	5,612
Disposals	–	–	(8,161)	(8,161)
Decrease from disposal of subsidiaries	(77,926)	(196,658)	(5,164)	(279,748)
At 30 June 2017	2,989	–	9,407	12,396
Accumulated depreciation and impairment:				
At 1 January 2017	(54,237)	(147,652)	(9,834)	(211,723)
Charge for the period	(744)	(2,830)	(1,482)	(5,056)
Written back on disposals	–	–	5,552	5,552
Decrease from disposal of subsidiaries	53,809	150,482	3,443	207,734
At 30 June 2017	(1,172)	–	(2,321)	(3,493)
Carrying amount:				
At 30 June 2017	1,817	–	7,086	8,903

At 30 June 2017, RMBNil (31 December 2016: RMB75,316,000) of the Group's property, plant and equipment were pledged as securities for an on-going litigation where certain subsidiaries of the Group are being sued for repayment of an overdue loan payable to a third party. These subsidiaries, together with the pledged property, plant and equipment and related litigation, have been disposed of during the current period (see Note 8).

12 Lease prepayments

	<i>RMB'000</i>	
Cost:		
At 1 January 2016 and 31 December 2016	13,826	-----
Accumulated amortisation and impairment:		
At 1 January 2016	(2,065)	
Charge for the year	(277)	-----
At 31 December 2016	(2,342)	-----
Carrying amount:		
At 31 December 2016	11,484	=====
Cost:		
At 1 January 2017	13,826	
Decrease from disposal of subsidiaries	(13,826)	-----
At 30 June 2017	-	-----
Accumulated amortisation and impairment:		
At 1 January 2017	(2,342)	
Charge for the period	(91)	
Decrease from disposal of subsidiaries	2,433	-----
At 30 June 2017	-	-----
Carrying amount:		
At 30 June 2017	-	=====
Represented by:		
	At 30 June	At 31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portion	-	11,207
Current portion	-	277
	-----	-----
	-	11,484
	=====	=====

Lease prepayments represented land use right premiums paid by the Group for leasehold land situated in the PRC.

12 Lease prepayments (continued)

At 30 June 2017, RMBNil (31 December 2016: RMB11,484,000) of the Group's lease prepayments were pledged as securities for an on-going litigation where certain subsidiaries of the Group are being sued for repayment of an overdue loan payable to a third party. These subsidiaries, together with the pledged lease prepayments and related litigation, have been disposed of during the current period (see Note 8).

13 Intangible assets

The intangible assets represent the Group's electronic distribution platform, www.CCIGMALL.com, which the Group acquired through the acquisition of a business in 2015, and an exclusive income right obtained in 2016 in developing a tailor-made e-commerce platform for a property developer to earn revenue from this property developer by assisting its property sales through the platform.

14 Goodwill

RMB'000

Cost:

At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017 61,013

Accumulated impairment losses:

At 1 January 2016 and 31 December 2016 –
Impairment losses (14,844)

At 30 June 2017 (14,844)

Carrying amount:

At 30 June 2017 46,169

At 31 December 2016 61,013

On 25 March 2015, the Group acquired the 51% equity interests of Century Network Holding Limited ("Century Network") for a consideration of RMB76,392,000. The excess of the cost of the purchase over the net fair value of the identifiable net assets acquired of RMB61,013,000 was recorded as goodwill and allocated to the Century Network's E-commerce business (the "E-commerce CGU").

14 Goodwill (continued)

The recoverable amount of the E-commerce CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. These cash flow projections adopted annual growth rates ranging from 35% to 60% (31 December 2016: 65% to 392%), which are based on the Group's experience and future business plans for this business and adjusted for other factors that are specific to the E-commerce CGU. Cash flows beyond the five-year period are extrapolated using a 3% (31 December 2016: 3%) long-term growth rate, which is based on the relevant industry growth forecasts. The cash flows are discounted using a discount rate of 29.7% (31 December 2016: 32.4%). The discount rate used is pre-tax and reflects specific risks relating to the E-commerce CGU.

Impairment loss of RMB14,844,000 has been recognised during the six months ended 30 June 2017 as the E-commerce CGU has been reduced to its recoverable amount, as the actual business growth of the E-commerce business for the six months ended 30 June 2017 was less than expected. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

15 Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	–	38,557
Work in progress	–	5,092
Finished goods	–	30,042
Merchandises for trading	<u>1,853</u>	<u>3,598</u>
	1,853	77,289
Less: write-down of inventories	<u>–</u>	<u>(48,030)</u>
	<u><u>1,853</u></u>	<u><u>29,259</u></u>

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss and other comprehensive income is as follows:

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	120,774	223,731
Write-down/(reversal of write-down) of inventories	<u>7,740</u>	<u>(621)</u>
	<u><u>128,514</u></u>	<u><u>223,110</u></u>

16 Trade and other receivables

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade receivables	4,185	300,540
Bills receivables	—	25,990
	<u>4,185</u>	<u>326,530</u>
Less: allowance for doubtful debts	<u>(3,399)</u>	<u>(276,533)</u>
	786	49,997
Prepayments, deposits and other receivables:		
– Advances to suppliers	495	74,088
– Value added tax refundable	4,890	5,293
– Proceeds receivable for issuance of shares	—	246,352
– Loan to a third party	49,605	—
– Others	45,435	71,420
	<u>100,425</u>	<u>397,153</u>
Less: allowance for doubtful debts	<u>(40,130)</u>	<u>(131,777)</u>
	<u>60,295</u>	<u>265,376</u>
	<u>61,081</u>	<u>315,373</u>

All of the trade and other receivables, net of allowance for doubtful debts, are expected to be recovered or recognised as expenses within one year. For trade receivables arising from the Group's E-commerce business, cash before delivery is generally required for all customers.

16 Trade and other receivables (continued)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (net of allowance for doubtful debts), included in trade and other receivables, based on the invoice date, is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	22	29,314
Over 3 months but within 6 months	–	19,816
Over 6 months	764	867
	786	49,997

At 30 June 2017, trade and bills receivables of RMBNil (31 December 2016: RMB19,920,000) have been pledged to secure the Group's short-term bank and other loans.

(b) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movements in the allowance for doubtful debts during the period/year are as follows:

	Six months ended 30 June 2017 RMB'000	Year ended 31 December 2016 RMB'000
At 1 January	408,310	390,061
(Reversal of impairment losses)/impairment losses (Note 6)	(5,715)	18,249
Uncollectible amounts written off	(77)	–
Decrease from disposal of subsidiaries	(358,989)	–
At 30 June/31 December	43,529	408,310

At 30 June 2017, trade and other receivables of RMB43,529,000 (31 December 2016: RMB408,310,000) were individually determined to be impaired. The individually impaired receivables related to customers and debtors that were in financial difficulties and management assessed that these receivables are irrecoverable. The Group does not hold any collateral over these balances.

17 Assets classified as held-for-sale

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Property, plant and equipment	–	49,572
Lease prepayments	–	20,826
	<u>–</u>	<u>70,398</u>

The balance of assets classified as held-for-sale as at 31 December 2016 was related to the Chang Feng Group which has been disposed of during the current period (see Note 8).

18 Cash and cash equivalents

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash at bank and on hand	<u>506,454</u>	<u>90,002</u>

The Group's operations in the PRC (excluding Hong Kong) conduct their businesses in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

19 Trade and other payables

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade payables	66	23,431
Payables for staff related costs	3,270	10,070
Payables for construction and purchase of property, plant and equipment	–	2,616
Payables for miscellaneous taxes	6	4,160
Interest payables	–	13,996
Others	2,732	44,529
	<u>6,008</u>	<u>75,371</u>
Financial liabilities measured at amortised cost	6,074	98,802
Deposits received in connection with disposals of assets classified as held-for-sale	–	54,226
Advances received from customers	172	4,818
Provision for warranties	–	1,665
	<u>6,246</u>	<u>159,511</u>

19 Trade and other payables (continued)

All of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables included in trade and other payables, based on the invoice date, is as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 3 months	45	2,824
3 to 6 months	–	651
Over 6 months	21	19,956
	<u>66</u>	<u>23,431</u>

20 Bank and other loans

(a) The Group's short-term bank and other loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans:		
– Secured by land use rights and property, plant and equipment of the Group	–	52,400
Other loans from third parties:		
– Guaranteed by subsidiaries of the Group	–	42,860
– Secured by bills receivables of the Group	–	19,920
– Unguaranteed and unsecured	–	52,935
	<u>–</u>	<u>115,715</u>
	–	168,115
Add: Current portion of long-term bank and other loans (Note 20(b))	–	27,550
	<u>–</u>	<u>195,665</u>

20 Bank and other loans (continued)

(b) The Group's long-term bank and other loans are analysed as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loan:		
– Guaranteed by a third party	–	15,000
Other loan from a third party:		
– Guaranteed by a subsidiary of the Group	–	12,550
	–	27,550
Less: Current portion of long-term bank and other loans (Note 20(a))	–	(27,550)
	–	–

(c) The following assets and their respective carrying values as at the end of the reporting period are pledged to secure the Group's short-term bank and other loans:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Property, plant and equipment (Note 11)	–	75,316
Lease prepayments (Note 12)	–	11,484
Trade and bills receivables (Note 16(a))	–	19,920
Pledged bank deposits	–	428
	–	107,148

(d) As at 30 June 2017, the Group's banking facilities amounted to RMBNil (31 December 2016: RMB52,400,000) were utilised to the extent of RMBNil (31 December 2016: RMB52,400,000).

21 Secured notes

On 3 June 2015, the Company issued secured notes (the "Notes") with an aggregate face value of USD20,000,000 (equivalent to approximately RMB122,352,000) to Chance Talent Management Limited ("Chance Talent"), a third party. The Notes bear interest at 13% per annum, payable semi-annually, with maturity date on 3 June 2017. The Notes and the convertible bonds issued on 3 June 2015 (See Note 22) are secured by 505,581,818 ordinary shares (the "Pledged Shares") in the Company owned by Century Investment (Holding) Limited ("Century Investment"), an equity shareholder of the Company.

On 13 January 2017, the Group has redeemed all of the Notes. The difference between the redemption value and the carrying amount of the Notes amounted to RMB1,228,000 has been recognised as a gain on redemption of the Notes in the current period (see Note 7). On 15 March 2017, 396,238,156 ordinary shares of the Pledged Shares have been released.

22 Convertible bonds

The Group's convertible bonds are analysed as follows:

	Liability components <i>RMB'000</i>	Derivative components <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2016	59,428	20,981	80,409
Accrued finance charges for the year	12,166	–	12,166
Interest paid	(8,738)	–	(8,738)
Exchange adjustments	4,179	1,374	5,553
Fair value changes on the derivative components	–	26,586	26,586
	<hr/>	<hr/>	<hr/>
At 31 December 2016 and 1 January 2017	67,035	48,941	115,976
Accrued finance charges for the period (<i>Note 7(a)</i>)	5,824	–	5,824
Interest paid	(4,471)	–	(4,471)
Exchange adjustments	(1,578)	(1,147)	(2,725)
Fair value changes on the derivative components (<i>Note 7(a)</i>)	–	(26,504)	(26,504)
	<hr/>	<hr/>	<hr/>
At 30 June 2017	<u>66,810</u>	<u>21,290</u>	<u>88,100</u>

On 3 June 2015, the Company has issued two secured convertible bonds with face value of USD6,000,000 (equivalent to approximately RMB36,706,000) (“CB1”) and USD4,000,000 (equivalent to approximately RMB24,470,000) (“CB2”) to Chance Talent. Both convertible bonds bear interest at 13% per annum and will mature on 3 June 2018. CB1, CB2 and the Notes (see Note 21) are secured by the Pledged Shares.

Upon issuance of these convertible bonds, Chance Talent can convert CB1 into the Company's ordinary shares at HK\$1.06 per share (i.e. the conversion option) and CB2 into the Company's ordinary shares at HK\$1.50 per share (i.e. the conversion option) at any time from 3 June 2016 till 3 June 2018. The conversion options are classified as derivative financial instruments and have been included in the balance of the convertible bonds in the consolidated statement of financial position.

The Group's convertible bonds are subject to the fulfilment of covenants as stipulated in the bond instruments. At 31 December 2016, the Group has not fulfilled certain of the financial and operational related covenants, and accordingly, the convertible bonds have become repayable on demand and have been classified as short-term liabilities. On 27 February 2017, the Group and Chance Talent have reached an agreement, where Chance Talent agreed not to demand payment as a consequence of the above matters before the original maturity date of 3 June 2018.

On 15 March 2017, 396,238,156 ordinary shares of the Pledged Shares have been released (see Note 21), and accordingly, CB1 and CB2 are secured by 109,343,662 ordinary shares in the Company owned by Century Investment.

23 Provisions

Provisions for financial guarantee contracts issued:

	<i>RMB '000</i>
At 1 January 2016	–
Additional provisions made	30,965
At 31 December 2016 and 1 January 2017	30,965
Decrease from disposal of subsidiaries	(30,965)
At 30 June 2017	–

24 Deferred tax assets and liabilities

(a) Deferred tax assets and liabilities recognised:

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year/period are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	Unused tax losses <i>RMB '000</i>	Impairment losses on trade and other receivables <i>RMB '000</i>	Fair value adjustments on property, plant and equipment, lease prepayments and intangible assets and subsequent depreciation and amortisation <i>RMB '000</i>	Total <i>RMB '000</i>
At 1 January 2016	26,270	–	(5,241)	21,029
Credited to the consolidated statement of profit or loss and other comprehensive income	14,234	9,983	1,295	25,512
At 31 December 2016	40,504	9,983	(3,946)	46,541
(Charged)/credited to the consolidated statement of profit or loss and other comprehensive income (<i>Note 9</i>)	(16,547)	–	643	(15,904)
Decrease from disposal of subsidiaries	–	–	669	669
At 30 June 2017	23,957	9,983	(2,634)	31,306

24 Deferred tax assets and liabilities (continued)

(b) Reconciliation of deferred tax assets and liabilities recognised in the consolidated statement of financial position:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	33,940	50,487
Deferred tax liabilities recognised in the consolidated statement of financial position	(2,634)	(3,946)
	<u>31,306</u>	<u>46,541</u>

25 Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: RMBNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

The directors of the Company did not recommend the payment of a dividend for the year ended 31 December 2016 (2015: RMBNil).

(b) Share capital

	Six months ended 30 June 2017		Year ended 31 December 2016	
	No. of shares '000	RMB'000	No. of shares '000	RMB'000
Ordinary shares of USD0.01 each, issued and fully paid:				
At 1 January	1,671,615	108,209	1,532,727	98,557
Shares issued	151,515	10,404	138,888	9,652
At 30 June/31 December	<u>1,823,130</u>	<u>118,613</u>	<u>1,671,615</u>	<u>108,209</u>

On 12 December 2016, the Company entered into a placing agreement with a placing agent, pursuant to which the Company agreed to place, through the placing agent, a maximum of 291,218,000 new shares to independent places at a price of HK\$1.98 per share.

On 29 December 2016, one placee, namely Taiping Trustees Limited, subscribed for 138,888,000 shares in the Company. USD1,389,000 (equivalent to approximately RMB9,652,000) of the proceeds was credited to the Company's share capital. The remaining proceeds, net of transaction costs, of USD33,689,000 (equivalent to approximately RMB234,132,000) were credited to the Company's share premium account.

25 Capital, reserves and dividends (continued)

(b) Share capital (continued)

On 6 January 2017, another placee, namely Beijing Enterprises Real Estate (HK) Limited, subscribed for 151,515,000 shares in the Company. USD1,515,000 (equivalent to approximately RMB10,404,000) of the proceeds was credited to the Company's share capital. The remaining proceeds, net of transaction costs, of USD36,769,000 (equivalent to approximately RMB252,482,000) were credited to the Company's share premium account.

(c) Equity settled share-based transactions

The Company has a share option scheme which was adopted on 28 June 2010 whereby the directors of the Company are authorised, at their discretion, to invite any full-time or part-time employees, executives, officers or directors (including independent non-executive directors) of the Group and any advisors, consultants, agents, suppliers, customers, distributors and such other persons who, in the sole opinion of the directors of the Company, will contribute or have contributed to the Group, to take up share options at HK\$1 to subscribe for ordinary shares in the Company.

On 3 October 2016, 80,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All of the share options granted will vest after one year from the date of grant and will mature on 2 October 2019. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK\$1.41 and is settled gross in shares.

Share options were granted with a service condition. There were no market conditions associated with the share options granted.

The number and weighted average exercise price of share options are as follows:

	Six months ended 30 June 2017	
	Weighted average exercise price HK\$	Number of share options
Outstanding at the beginning of the period	1.41	80,000,000
Forfeited during the period	1.41	(5,000,000)
Outstanding at the end of the period	<u>1.41</u>	<u>75,000,000</u>
Exercisable at the end of the period	<u>—</u>	<u>—</u>

The share options outstanding at 30 June 2017 had a weighted average exercise price of HK\$1.41 and a weighted average remaining contractual life of 2.3 years.

26 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Fair value measurements categorised into Level 3	
At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Recurring fair value measurement	
Financial liabilities	
– Derivative components of convertible bonds (<i>Note 22</i>)	48,941
21,290	48,941

During the six months ended 30 June 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (year ended 31 December 2016: none). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable input	Weighted average
Derivative components of convertible bonds	Binomial lattice model	Expected volatility	53.76%

The fair values of the conversion options embedded in the convertible bonds are determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2017, it is estimated that with all other variables held constant, an increase in the expected volatility by 5% would have decreased the Group's net profit by RMB1,100,000, whereas a decrease in the expected volatility by 5% would have increased the Group's net profit by RMB1,424,000.

The movements in the derivative components of convertible bonds are set out in Note 22.

26 Fair value measurement of financial instruments (continued)

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 30 June 2017 and 31 December 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	At 30 June 2017		At 31 December 2016	
	Carrying amount at 30 June <i>RMB'000</i>	Fair value measurements at 30 June categorised into Level 3 <i>RMB'000</i>	Carrying amount at 31 December <i>RMB'000</i>	Fair value measurements at 31 December categorised into Level 3 <i>RMB'000</i>
Liabilities				
Secured notes (<i>Note (i)</i>)	–	–	141,161	136,075
Convertible bonds-liability components (<i>Note (i)</i>)	66,810	62,792	67,035	62,398

Note (i): Valuation techniques and inputs used in Level 3 fair value measurements

Secured notes and convertible bonds-liability components

The fair values are estimated as being the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The Group used the risk free interest rates with reference to the Hong Kong government bonds and treasury bills as of 30 June 2017 and 31 December 2016 plus credit spread of comparable notes with similar credit rating, coupons and maturities to discount the secured notes and the liability components of the convertible bonds as of 30 June 2017 and 31 December 2016. The interest rates used are as follows:

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Secured notes	N/A	21.71%
Convertible bonds-liability components	24.73%	23.71%

27 Commitments

(a) Capital commitments

At 30 June 2017, the outstanding capital commitments of the Group not provided for in the interim financial information were summarised as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Commitment in respect of investment in a subsidiary – Contracted for	<u>200,000</u>	<u>100,000</u>

Pursuant to an agreement entered into between the Company, via a non-wholly owned subsidiary, and three independent parties on 29 November 2016, the Group is committed to make capital contribution of RMB200,000,000 into a new company to be established by the above parties. This new company has been established and the capital contribution has been made in July 2017. This new company will operate an electronic trading platform, in which to facilitate awards earned by customers of loyalty programmes of other companies to be exchanged globally in the form of virtual assets and credits for consumption of merchandises, games, services and other commercial transactions.

(b) Operating lease commitments

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	12,859	6,016
After 1 year but within 5 years	<u>17,678</u>	<u>9,397</u>
	<u>30,537</u>	<u>15,413</u>

The Group leases certain office premises under operating leases. None of the leases includes contingent rentals.

28 Material related party transactions

In addition to the balances disclosed elsewhere in this interim financial information, the material related party transactions entered into by the Group during the period are set out below.

(a) Transactions with the equity shareholders of the Company

Details of guarantees provided by the equity shareholder of the Company for the Group's secured notes and convertible bonds are set out in Notes 21 and 22.

(b) Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	2,439	2,991
Contributions to defined contribution retirement plans	39	63
Equity-settled share-based payment expenses	11,172	–
	<u>13,650</u>	<u>3,054</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in electronic commerce (“**e-Commerce**”) business through cross-border electronic distribution platforms and mobile applications sourcing, importing and channeling authentic goods from suppliers abroad and then distributing and reselling such goods to domestic retailers and consumers in the People’s Republic of China (the “**PRC**”), and other general trading businesses. The Group also developed an electronic trading platform with the unique nature, aims to integrate the resources and strategic advantages of the joint venture partners and operate the “Point-Connect” digital point alliance system (“**ChangYo Digital Point Business Ecosystem Alliance**”). The points earned by customers through various channels can be exchanged globally in the form of virtual assets and credit for the consumption of merchandise, games, services and other commercial transactions.

Before the disposal of Chang Feng Holding (Hong Kong) Limited and its subsidiaries (the “**Chang Feng Group**”) in April 2017, the Group was also an independent axle component provider for the PRC’s medium duty truck (“**MDT**”) and heavy duty truck (“**HDT**”) aftermarket and also an independent axle assembly provider for the PRC’s MDT and HDT original equipment manufacturers (“**OEMs**”) market.

Due to the continued deterioration of the business environment of the heavy duty truck market, the demand for axle assemblies has declined significantly. In view of these circumstances, on 7 April 2017, the Group entered into a conditional agreement to sell the entire interest in Chang Feng Group, details of which are disclosed in the Company’s announcement dated 7 April 2017 and the supplemental announcement dated 19 April 2017. The disposal was completed on 28 April 2017.

On 29 November 2016, Pointsea Holdings Company Limited (“**Pointsea Holdings**”), a non-wholly-owned subsidiary of the Company, entered into an agreement (the “**Agreement**”) with Extra Step Investments Limited (“**Extra Step**”), a wholly-owned subsidiary of China Mobile (Hong Kong) Group Limited (“**China Mobile**”) and Joy Empire Holdings Ltd. (“**Joy Empire**”), a wholly-owned subsidiary of Bank of China Group Investment Limited (“**Bank of China**”), in relation to (i) the subscription of shares in Pointsea Company Limited (“**PCL**”); and (ii) the cooperation in the development of the business of PCL and its subsidiaries. On 20 May 2017, China Eastern Airlines E-Commerce Co., Ltd (東方航空電子商務有限公司) (“**Eastern E-Commerce**”), a wholly-owned subsidiary of China Eastern Airlines Corporation Limited (“**China Eastern Airlines**”), has executed a deed of accession and joined as a party to the Agreement in its capacity as one of the investors. Please refer to the announcements of the Company dated 29 November 2016, 7 December 2016 and 30 June 2017 for further details.

On 20 June 2017, all the conditions precedent under the Agreement have been fulfilled and completion of the subscription of additional shares in PCL by Pointsea Holdings, Extra Step, Joy Empire and Eastern E-Commerce took place pursuant to the terms of the Agreement. PCL is held as to 50% by Pointsea Holdings, around 16.67% by Extra Step, around 16.67% by Joy Empire and around 16.67% by Eastern E-Commerce.

Electronic commerce business

The Group has started the electronic commerce business since March 2015, initially through the operation of business-to-business platform. This business-to-business mode is to set up a direct path between pre-identified overseas suppliers, distributors and domestic retailers in the PRC. The Group has commenced practical businesses with hundreds of brand suppliers in Europe, covering thousands of brand producers, and established strategic cooperation relationships with some famous brand groups. The Group has launched a business-to-customer e-commerce platform since September 2015 in four main themes of product categories, namely affordable luxury, nursery, cosmetics and health. The Company has developed cooperation with some well established partners in various regions around the world. Besides, the Group has other trading businesses in connection with the electronic commerce business.

For the six months ended 30 June 2017, revenue from electronic commerce business segment amounted to approximately RMB90.2 million (30 June 2016: RMB199.1 million). The total revenue from this segment accounted for approximately 73% (30 June 2016: approximately 85%) of the Group's total revenue.

“ChangYo” Digital Point Business Ecosystem Alliance

The Group developed a membership point alliance with various business partners, including Bank of China, China Mobile and China Eastern Airlines, to realise points from different industries for conversion to alliance points in the “ChangYo” platform. The users can redeem the alliance points for customized merchandise games, services in the form of online and offline consumption. The Board is of the view that this will bring the Group further strategic business opportunities.

Axle business

The Group sells axle assemblies directly to OEMs in the PRC on a made-to-order basis to match its customers' specification requirements. A small portion of axle components are occasionally sold to other axle assembly providers. The Group is an independent axle component provider for China's MDT and HDT aftermarket with diversified product offerings among independent axle component providers in the PRC.

The axle components are sold to customers in the aftermarket through its extensive sales, marketing and services network across the PRC. For the six months ended 30 June 2017, revenue from the OEM market and aftermarket business segment amounted to approximately RMB32.7 million (30 June 2016: approximately RMB35.1 million), representing a decrease of approximately 7% as compared with the corresponding period in 2016, and accounted for approximately 27% (30 June 2016: approximately 15%) of the Group's total revenue. The axle business was disposed of in April 2017.

FINANCIAL REVIEW

Revenue

The Group recorded a consolidated revenue of approximately RMB122.9 million (30 June 2016: approximately RMB234.2 million), decrease by approximately 48% as compared with the corresponding period in 2016.

Revenue from the Group's electronic commerce segment was RMB90.2 million for the six months ended 30 June 2017 (30 June 2016: RMB199.1 million), representing approximately 73% (30 June 2016: approximately 85%) of the Group's total revenue. The decrease was due to decrease in the sales to certain major customers of the Group's electronic commerce segment resulting from intensive competition from other electronic commerce business service providers.

Revenue from the Group's axle business segment for the six months ended 30 June 2017 decreased by approximately 7% to RMB32.7 million (30 June 2016: RMB35.1 million). The revenue from this segment was diminishing as a result of the disposal of Chang Feng Group.

Gross (loss)/profit

Gross loss for the six months ended 30 June 2017 amounted to approximately RMB5.7 million, as compared with the gross profit of approximately RMB10.6 million for the corresponding period in 2016. The decrease in gross profit was mainly due to continuing depressed business environment of axle business segment together with the significant price competition among competitors.

Other income

Other income of the Group for the six months ended 30 June 2017 amounted to approximately RMB225,000 (30 June 2016: approximately RMB20.3 million). The decrease was mainly attributable to the one-off gain amounted to RMB20.0 million on disposal of 開封暢豐車橋有限公司 (Kaifeng Changfeng Axle Co., Ltd.*) and its subsidiary in 2016.

(Impairment losses)/reversal of impairment losses

Impairment losses of the Group for the six months ended 30 June 2017 amounted to approximately RMB9.1 million, represented for the impairment losses on goodwill of approximately RMB14.8 million and offset by the reversal of impairment losses on trade and other receivables of approximately RMB5.7 million.

Selling and distribution expenses

Selling and distribution expenses of the Group for the six months ended 30 June 2017 decreased to approximately RMB7.3 million (30 June 2016: approximately RMB18.6 million). The decrease was mainly attributable to the decrease in selling and distribution expenses of staff costs and marketing expenses in the electronic commerce business and the decline in the axle business particularly due to the disposal of Chang Feng Group.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2017 increased to approximately RMB56.2 million, as compared to RMB26.9 million for the corresponding period in 2016. The increase was mainly attributable to the equity-settled share-based payment expenses and the cost for setting up the "ChangYo" Digital Point Business Ecosystem Alliance including rental of new office in Shanghai, staff recruitment, system development, etc..

Finance income/(costs)

The Group incurred finance income of approximately RMB9.4 million for the six months ended 30 June 2017. The increase in finance income was mainly due to the income of RMB26.5 million changes in fair value on derivative components of the convertible bonds with aggregate principal amount of US\$10 million and the decrease in finance charge on secured notes of RMB8.6 million.

Gain on disposal of subsidiaries

The Group disposed the Chang Feng Group in April 2017 and recorded gain on disposal of RMB141.5 million.

Taxation

The Group recorded income tax charge of RMB15.9 million (30 June 2016: income tax credit of approximately RMB8.8 million) for the six months ended 30 June 2017, mainly representing the write-down of deferred tax assets of the electronic commerce segment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, cash and cash equivalents of the Group amounted to approximately RMB506.5 million (31 December 2016: approximately RMB90 million).

As compared with the position as at 31 December 2016, cash and cash equivalents increased by approximately RMB416.5 million, resulting from the net cash outflow from operating activities of approximately RMB44.8 million for the six months ended 30 June 2017 (year ended 31 December 2016: RMB71.3 million), the net cash outflow from investing activities of approximately RMB55.3 million for the six months ended 30 June 2017 (year ended 31 December 2016: RMB27.2 million) and the net cash inflow from financing activities of approximately RMB522.8 million for the six months ended 30 June 2017 (year ended 31 December 2016: net cash outflow of RMB13.6 million).

As at 30 June 2017, net current assets of the Group amounted to approximately RMB475.1 million (31 December 2016: net current liabilities of approximately RMB137.8 million). As at 30 June 2017, the current ratio (representing total current assets divided by total current liabilities) of the Group was approximately 6.04 (31 December 2016: approximately 0.79).

As at 30 June 2017, total assets of the Group were approximately RMB676.3 million (31 December 2016: approximately RMB733.8 million) and total liabilities were approximately RMB97 million (31 December 2016: approximately RMB647.2 million). The debt ratio (representing total liabilities divided by total assets) as at 30 June 2017 was 0.14 as compared to 0.88 as at 31 December 2016.

As at 30 June 2017, the Group had total borrowings (including bank and other loans, secured notes and convertible bonds) of approximately RMB88.1 million (31 December 2016: approximately RMB452.8 million). The decrease was mainly attributable to the disposal of Chang Feng Group in April 2017 and the redemption of secured notes in January 2017. The gearing ratio (representing total borrowings divided by total equity) was approximately 0.15 (31 December 2016: approximately 5.23). The convertible bonds with aggregate principal amount of US\$10 million can be converted into ordinary shares of the Company at an initial conversion price of HK\$1.06 per share (subject to adjustment) for the principal amount of US\$6 million and HK\$1.50 per share (subject to adjustment) for the principal amount of US\$4 million. Assuming full conversion of the convertible bonds at the initial conversion prices at the exchange rate of US\$1 = HK\$7.75, a maximum number of 64,534,590 conversion shares may be issued.

Property, plant and equipment, lease prepayments and assets classified as held-for-sale

As at 30 June 2017, property, plant and equipment, lease prepayments and assets classified as held-for-sale were approximately RMB8.9 million (31 December 2016: approximately RMB164.6 million). The decrease was mainly attributable to the disposal of Chang Feng Group in April 2017.

Trade and other receivables

Trade and other receivables of the Group as at 30 June 2017 were approximately RMB61.1 million (31 December 2016: approximately RMB315.4 million). The significant decrease in balance was mainly due to the proceeds from placing of shares of the Company in 2016 were received in early January 2017.

Inventories

The inventory balance of the Group as at 30 June 2017 was approximately RMB1.9 million (31 December 2016: approximately RMB29.3 million). The decrease was mainly attributable to the disposal of Chang Feng Group in April 2017.

Trade and other payables

Trade and other payables of the Group as at 30 June 2017 were approximately RMB6.2 million (31 December 2016: approximately RMB159.5 million). The decrease was mainly attributable to the disposal of Chang Feng Group in April 2017.

Pledged assets

As at 30 June 2017, no assets were pledged by the Group (31 December 2016: approximately RMB107.1 million) to secure the bank and other loans.

Contingent liabilities and event after the reporting period

As at 30 June 2017, the Group had no significant contingent liabilities. The Group had no significant event after the reporting period, except as disclosed in Note 27(a).

Capital commitment

As at 30 June 2017, the Group committed to inject RMB200 million (31 December 2016: RMB100 million) in respect of investment in a subsidiary. Save as disclosed above, the Group had no other contracted capital commitments which were not provided in the interim financial information.

Employees

As at 30 June 2017, the Group had 163 employees which are located in Beijing, Shanghai and Hong Kong. For the six months ended 30 June 2017, total staff costs were approximately RMB45 million. During the period, the Group also provided internal training, external training and correspondence courses for its staff in order to promote self-improvement and enhancement of skills relevant to work.

Foreign exchange risk

The business of the Group is mainly located in the PRC and most of the transactions are denominated in Renminbi. Most of the assets and liabilities of the Group except for some cash and cash equivalents, other receivables, secured notes and convertible bonds, are computed in Renminbi. As at 30 June 2017, the Group's net foreign currencies assets amounted to approximately RMB254.2 million (31 December 2016: RMB58.5 million). During the six months ended 30 June 2017, the Group did not utilize any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will continue to monitor the risk exposures and will consider to hedge against material currency risk if required.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the disposal of the axle business as disclosed in this announcement, there were no other significant investments held nor material acquisitions or disposals of subsidiaries during the reporting period and there was no plan authorised by the Board for other material investments or additions of capital assets as at the date of this announcement.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

On 3 June 2015, the Company issued secured notes (the “Notes”) with an aggregate face value of US\$20,000,000 (equivalent to approximately RMB122,352,000) to Chance Talent. The Notes bear interest at 13% per annum, payable semiannually. Subsequently, the Company redeemed the Notes on 13 January 2017. On 3 June 2015, the Company issued two secured convertible bonds with face value of USD6,000,000 (equivalent to approximately RMB36,706,000) (“CB1”) and USD4,000,000 (equivalent to approximately RMB24,470,000) (“CB2”) to Chance Talent. Both convertible bonds bear interest at 13% per annum and will mature on 3 June 2018. The Notes, CB1 and CB2 are secured by 505,581,818 ordinary shares in the Company owned by Century Investment (Holding) Limited (“CIHL”), an equity shareholder of the Company. Upon redemption of the Notes, 396,238,156 ordinary shares have been released on 15 March 2017. As at the date of this interim results announcement, CIHL pledged its 109,343,662 ordinary shares in the Company (the “Charged Shares”) to secure the obligations of the Company under the CB1 and CB2. The Charged Shares represent approximately 6.0% of the issued share capital of the Company. For further details of this transaction, please refer to the announcements of the Company dated 6 May 2015 and 3 June 2015.

DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2017 (30 June 2016: RMB Nil).

PROSPECTS

“ChangYo” Digital Point Business Ecosystem Alliance

The Group together with CCB International Holdings Limited, China UnionPay Merchant Services Company Limited, China Mobile, Bank of China and China Eastern Airlines set up a joint venture group. Through the establishment of this joint venture group, the Group is developing and operating a global smart commercial financial platform for virtual asset management, credit payment and clearing.

The Digital Point Business Ecosystem Alliance is a virtual asset management operation platform developed by the Group. The Digital Point Business Ecosystem Alliance intends to facilitate inclusive financing through the use of the internet by allowing users to exchange and convert points earned under various channels into alliance points, a virtual asset used for online and offline consumption in merchandise or service transactions, which aims to promote better financial planning and wealth preservation for potential consumers in a secured environment.

The Digital Point Business Ecosystem Alliance also proposes to feature new financial technologies such as blockchain, which enables users to effectively extract and develop big data samples and a precise and extensive database of consumer transactions and consumption behaviour for the purposes of developing a new three-in-one internet credit system comprising corporate credit, individual credit and commodity credit. The Group also plans to collaborate with leading enterprises for blockchain technology research and development in the future to develop a universal standardised software and system solution for blockchain technology so as to make full use of the Digital Point Business Ecosystem Alliance.

CentChain Co., Ltd (世紀暢鏈有限責任公司), a wholly foreign-owned enterprise (“WFOE”), was established in the PRC in July 2017, in which, the Digital Point Business Ecosystem Alliance will be operated under this WFOE. The platform is now rapidly developing and a “ChangYo” platform registered under Wechat has been established and is in operation in the second half of 2017, in which the users can earn or exchange alliance points by using this Wechat platform. In this platform, certain features such as online merchandise redemption, games, etc are launched and its membership and users is growing since its launch. In order to keep the freshness and attraction for the users, the Group is currently developing further new features in the platform and continues to source more suppliers to enlarge the merchandise base. The platform will continue to launch regular and ad hoc promotional activities to attract new users and maintain loyalty for existing users. We expect the Digital Point Business Ecosystem Alliance will start to generate returns in the forth quarter this year.

Looking forward, the Group will place more focus on the development of the “ChangYo” Digital Point Business Ecosystem Alliance which is expected to generate a higher return and the Group will integrate the resources and strategic advantages of each company under the alliance and collaborate with major overseas financial payment companies to create “digital points in the equivalent form of virtual assets”, a cross-border virtual asset pool where consumers’ digital points can be used as virtual assets for worldwide circulation and which can achieve international strategies by offering shopping, service consumption and commercial purchasing with credits. The Group endeavors to create a Digital Points Business Ecosystem with the biggest impact the world, leading the commercial community to step into an era of intelligent internet.

The Group is also in all times looking for business opportunities which will be supplement to our “ChangYo” platform with a view to increase its users base, users profiles, enhance revenue and return.

e-Commerce business

At present, still a lot of business opportunities available to our e-Commerce business, which experiencing rapid growth in the PRC. Looking forward, the Group will commit time and resources to develop its e-Commerce business. With the start-up of “ChangYo” Digital Point Business Ecosystem Alliance, the Group expects that the “ChangYo” platform may create commercial synergies with our e-Commerce business in coming future. With a well-developed professional team under e-Commerce business, the Group will continue to explore other related business opportunities, including provision of services to fit its customers’ needs in their online business.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to optimize returns for the shareholders of the Company. During the six months ended 30 June 2017, the Company has applied the principles of and has complied with all code provisions as set forth in the Corporate Governance Code (the “**CG Code**”) as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), save for the deviation as set forth below:

Code Provision A.6.7

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should attend general meetings of the Company. Mr. Chan Chi Keung, Alan was not able to attend the annual general meeting of the Company held on 29 May 2017 due to his other engagement in other commitments.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

Save for the placing of shares of the Company which was completed on 6 January 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company during the six months ended 30 June 2017. Please refer to the announcements of the Company dated 16 December 2016, 22 December 2016 and 6 January 2017 for further details.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed and declared that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

REVIEW ON INTERIM RESULTS

The Audit Committee has reviewed the accounting principles, practices and treatments adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2017 with the management of the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company at www.fortunetecomm.com and the Stock Exchange at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2017 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available on the same websites in due course.

By order of the Board
Fortunet e-Commerce Group Limited
Mr. Cheng Jerome
Chairman

Hong Kong, 18 August 2017

As at the date of this announcement, the executive Directors are Mr. Cheng Jerome and Mr. Yuan Weitao; the non-executive Director is Mrs. Guo Yan; and the independent non-executive Directors are Mr. Wong Chi Keung, Mr. Liu Jialin and Mr. Chan Chi Keung Alan.

* *For identification purposes only*