



恒騰網絡集團
hengten networks group

HENG TEN NETWORKS GROUP LIMITED
恒騰網絡集團有限公司

(a company incorporated in Bermuda with limited liability)
(Stock Code: 136)

2019 INTERIM REPORT



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CORPORATE INFORMATION

Set out below is the corporate information of HengTen Networks Group Limited as at the date of this report (i.e. 22 August 2019):

DIRECTORS

Executive Directors

Mr. Xu Wen (*Chairman*)
Mr. Liu Yongzhuo
Mr. Huang Xiangui
Mr. Zhuo Yueqiang

Independent Non-executive Directors

Mr. Chau Shing Yim, David
Mr. Nie Zhixin
Mr. Chen Haiquan
Professor Shi Zhuomin

Audit Committee

Mr. Chau Shing Yim, David (*Chairman*)
Mr. Nie Zhixin
Mr. Chen Haiquan

Remuneration Committee

Mr. Chau Shing Yim, David (*Chairman*)
Mr. Xu Wen
Mr. Nie Zhixin

Nomination Committee

Mr. Xu Wen (*Chairman*)
Mr. Nie Zhixin
Mr. Chen Haiquan

COMPANY SECRETARY

Mr. Fong Kar Chun, Jimmy

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

23rd Floor
China Evergrande Centre
38 Gloucester Road
Wanchai
Hong Kong

SHARE REGISTRARS

Bermuda

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong

Tricor Secretaries Limited
Level 54
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China (Asia) Limited
China Everbright Bank Co., Ltd.
Shanghai Pudong Development Bank Co., Ltd.

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

WEBSITE ADDRESS

<http://www.htmimi.com>

DATE OF REPORT

22 August 2019

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	8,512	15,384
Lease receivables	3	4,564	–
Right-of-use assets	3, 6	18,628	–
Intangible assets	6	4,509	6,777
Investment properties	6	15,800	15,800
Deferred tax assets		24,743	20,195
Financial assets at fair value through other comprehensive income		617	589
Prepayments	9	146	166
		77,519	58,911
Current assets			
Inventories	7	39,514	43,119
Trade receivables	8	35,786	65,019
Other receivables and prepayments	9	41,657	37,695
Cash and cash equivalents	10	1,169,314	1,227,239
		1,286,271	1,373,072
Total assets		1,363,790	1,431,983
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	11	150,172	150,172
Share premium	11	4,454,940	4,454,940
Other reserves	12	69,528	63,598
Accumulated losses		(3,579,547)	(3,627,632)
		1,095,093	1,041,078
Non-controlling interests		1,501	1,563
Total equity		1,096,594	1,042,641

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	3	11,511	–
Obligations under finance leases	3	–	115
Borrowings	13	26,316	52,632
Deferred tax liabilities		3,657	3,657
		41,484	56,404
Current liabilities			
Contract liabilities		14,110	51,323
Lease liabilities	3	11,607	–
Obligations under finance leases	3	–	370
Borrowings	13	26,316	–
Trade payables	14	13,545	24,665
Other payables	15	150,632	211,582
Current income tax liabilities		9,502	44,998
		225,712	332,938
Total liabilities		267,196	389,342
Total equity and liabilities		1,363,790	1,431,983

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Xu Wen
Director

Huang Xiangui
Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended	
		30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) (restated) RMB'000
Revenue	5	164,126	230,294
Cost of sales	16	(60,907)	(48,297)
Gross profit		103,219	181,997
Selling and marketing costs	16	(29,344)	(30,569)
Administrative expenses	16	(26,225)	(25,637)
Net impairment losses on financial assets		(3,182)	(282)
Net change in fair value of financial assets at fair value through profit or loss		–	(203)
Other income	17	5,050	3,665
Other expenses	18	(2,704)	(3,430)
Other gains – net		381	917
Operating profit		47,195	126,458
Finance costs	19	(1,922)	(1,222)
Finance income	19	11,219	4,201
Finance income – net	19	9,297	2,979
Profit before income tax		56,492	129,437
Income tax expense	20	(2,960)	(28,511)
Profit for the period		53,532	100,926
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Changes in the fair value of debt instruments at fair value through other comprehensive income		28	(34)
Currency translation difference		393	11,134
Other comprehensive income for the period, net of tax		421	11,100
Total comprehensive income for the period		53,953	112,026

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended	
		30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) (restated) RMB'000
Profit for the period attributable to:			
Owners of the Company		53,594	101,001
Non-controlling interests		(62)	(75)
		53,532	100,926
Total comprehensive income for the period attributable to:			
Owners of the Company		54,015	112,101
Non-controlling interests		(62)	(75)
		53,953	112,026
Earnings per share for profit attributable to the ordinary equity holders of the Company for the period: (expressed in RMB cents per share)			
Basic earnings per share	21	0.0665	0.1244
Diluted earnings per share	21	0.0655	0.1203

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to owners of the Company						Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 11)	Share premium RMB'000 (Note 11)	Other reserves RMB'000 (Note 12)	Accumulated losses RMB'000	Total RMB'000			
Balance at 1 January 2018	150,172	4,454,940	9,234	(3,734,094)	880,252	803	881,055	
Comprehensive income								
Profit for the period	-	-	-	101,001	101,001	(75)	100,926	
Other comprehensive income								
Changes in the fair value of debt instruments at fair value through other comprehensive income	-	-	(34)	-	(34)	-	(34)	
Currency translation difference	-	-	11,134	-	11,134	-	11,134	
Total other comprehensive income	-	-	11,100	-	11,100	-	11,100	
Total comprehensive income	-	-	11,100	101,001	112,101	(75)	112,026	
Transactions with owners								
Transfer to statutory reserve	-	-	4,881	(4,881)	-	-	-	
Total transactions with owners	-	-	4,881	(4,881)	-	-	-	
Balance at 30 June 2018	150,172	4,454,940	25,215	(3,637,974)	992,353	728	993,081	

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Accumulated losses	Total		
RMB'000 (Note 11)	RMB'000 (Note 11)	RMB'000 (Note 12)	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2019	150,172	4,454,940	63,598	(3,627,632)	1,041,078	1,563	1,042,641
Comprehensive income							
Profit for the period	-	-	-	53,594	53,594	(62)	53,532
Other comprehensive income							
Changes in the fair value of debt instruments at fair value through other comprehensive income	-	-	28	-	28	-	28
Currency translation difference	-	-	393	-	393	-	393
Total other comprehensive income	-	-	421	-	421	-	421
Total comprehensive income	-	-	421	53,594	54,015	(62)	53,953
Transactions with owners							
Transfer to statutory reserve	-	-	5,509	(5,509)	-	-	-
Total transactions with owners	-	-	5,509	(5,509)	-	-	-
Balance at 30 June 2019	150,172	4,454,940	69,528	(3,579,547)	1,095,093	1,501	1,096,594

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended	
		30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
Cash flows of operating activities			
Net cash (used in)/generated from operations		(19,355)	239,929
Interest paid		(1,292)	(1,222)
Interest received		11,219	4,201
Income tax paid		(42,616)	(28,839)
Net cash (used in)/generated from operating activities		(52,044)	214,069
Cash flows of investing activities			
Purchase of property, plant and equipment		(63)	(2,745)
Dividend income received		23	26
Net cash used in investing activities		(40)	(2,719)
Cash flows of financing activities			
Principal elements of lease payments (2018: principal elements of finance lease payments)		(5,844)	(180)
Net cash used in financing activities		(5,844)	(180)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of period		1,227,239	901,165
Exchange gain on cash and cash equivalents		3	11,596
Cash and cash equivalents at end of period	10	1,169,314	1,123,931

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

HengTen Networks Group Limited (the “Company”) was incorporated in Bermuda with limited liability and is engaged in investment holding. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company and its subsidiaries (the “Group”) are principally engaged in internet community services and related businesses, manufacture and sales of accessories for photographic and electrical products, investment and trading of securities and property investment.

The Company had its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

This condensed consolidated interim financial information is presented in thousands of Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 22 August 2019.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 (“Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), and any public announcements made by the Group during the interim reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(continued)*

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the Group's financial year beginning on 1 January 2019 for the Group:

HKFRS 16	Leases
HK (IFRIC) 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRS Standards 2015 – 2017 Cycle	

The Group had to change its accounting policies and make certain modified retrospective adjustments as a result of adopting the HKFRS 16 Lease. The impact of the adoption of the leasing are disclosed in note 3 below. The adoption of the remaining new and amended standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(b) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKFRS 3	Definition of business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
HKFRS 17	Insurance Contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3(b) below.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	48,292
Discounted using the lessee's incremental borrowing rate of the date of initial application	46,163
Add: finance lease liabilities recognised as at 31 December 2018	485
Less: short-term leases recognised on a straight-line basis as expense	(1,427)
Less: contracts reassessed as service agreements	(16,342)
Lease liability recognised as at 1 January 2019	28,879
Of which are:	
Current lease liabilities	11,400
Non-current lease liabilities	17,479

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Adjustments recognised on adoption of HKFRS 16 *(continued)*

Under the simplified transition approach, the associated right-of-use assets were measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There was a sub-lease classified as a finance lease as it transferred substantially all of the risks and rewards incidental to ownership of the right-of use asset, and an adjustment was required to the right-of-use assets at the date of initial application.

The recognised right-of-use assets mainly relate to the following types of assets:

	30 June 2019 RMB'000	1 January 2019 RMB'000
Properties	18,216	22,804
Motor vehicles	412	748
Total right-of-use assets	18,628	23,552

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment – decrease by RMB748,000
- right-of-use assets – increase by RMB22,804,000 of properties and RMB748,000 of cars
- lease receivables – increase by RMB5,590,000
- lease liabilities – increase by RMB28,879,000
- obligations under finance lease – decrease by RMB485,000

There is no impact on the retained earnings on 1 January 2019.

The net profit after tax of the Group decreased by RMB415,000 for the six months ended 30 June 2019 as a result of adoption of HKFRS 16.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

(a) Adjustments recognised on adoption of HKFRS 16 *(continued)*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

The Group leases various warehouses, plants and cars for long-term contracts. Rental contracts are typically made for fixed periods of 3 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of warehouses and plants were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) The Group's leasing activities and how these are accounted for *(continued)*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

	Level 1 RMB'000
As at 30 June 2019	
Assets	
Financial assets at fair value through other comprehensive income ("FVOCI")	617
As at 31 December 2018	
Assets	
FVOCI	589

The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

There were no transfers between levels 1, 2 and 3 during the periods.

There were no other changes in valuation techniques during the periods.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash
- Borrowings
- Trade and other payables
- Obligations under finance leases
- Lease liabilities

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION

The chief operating decision-maker of the Group has been identified as the executive directors of the Company who are responsible for reviewing the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into three business segments: internet community and related businesses, property investment and other investment and manufacture and sales of accessories.

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

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2019 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Property investment and other investment <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	136,069	–	28,057	164,126
Timing of revenue recognition				
At a point	26,186	–	28,057	54,243
Over time	109,883	–	–	109,883
Dividend income from financial assets at FVOCI (<i>Note 17</i>)	–	23	–	23
	136,069	23	28,057	164,149
Segment profit/(loss)	55,149	(568)	(926)	53,655
Unallocated corporate expenses				(2,706)
Unallocated finance income – net				5,543
Profit before income tax				56,492
Depreciation	10,297	–	801	11,098
Amortisation	2,268	–	–	2,268

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Property investment and other investment <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	194,851	126	35,317	230,294
Timing of revenue recognition				
At a point	–	126	35,317	35,443
Over time	194,851	–	–	194,851
Dividend income from financial assets at FVOCI <i>(Note 17)</i>	–	26	–	26
Net change in fair value of financial assets at FVPL	–	(203)	–	(203)
	194,851	(51)	35,317	230,117
Segment profit/(loss)	124,401	(707)	5,500	129,194
Unallocated corporate expenses				(2,748)
Unallocated finance income – net				2,991
Profit before income tax				129,437
Depreciation	7,606	–	436	8,042
Amortisation	2,148	–	85	2,233

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 30 June 2019 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Property investment and other investment <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS				
Segment assets	129,776	16,418	22,487	168,681
Unallocated other receivables and prepayments				1,052
Deferred tax assets				24,743
Cash and cash equivalents				1,169,314
Consolidated total assets				1,363,790
LIABILITIES				
Segment liabilities	184,307	–	12,936	197,243
Unallocated other payables				4,162
Unallocated borrowings				52,632
Current income tax liabilities				9,502
Deferred tax liabilities				3,657
Consolidated total liabilities				267,196

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities as at 31 December 2018 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Property investment and other investment <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS				
Segment assets	147,831	16,389	17,555	181,775
Unallocated other receivables and prepayments				2,774
Deferred tax assets				20,195
Cash and cash equivalents				1,227,239
Consolidated total assets				1,431,983
LIABILITIES				
Segment liabilities	271,862	–	12,616	284,478
Unallocated other payables				3,577
Unallocated borrowings				52,632
Current income tax liabilities				44,998
Deferred tax liabilities				3,657
Consolidated total liabilities				389,342

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES

	Property, plant and equipment <i>RMB'000</i>	Right-of-use assets <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Investment properties <i>RMB'000</i>
Six months ended 30 June 2018				
Opening net book amount at 1 January 2018	27,324	–	8,443	15,600
Additions	3,136	–	–	–
Currency translation differences	17	–	–	–
Disposals	–	–	(4)	–
Depreciation and amortisation charges	(8,042)	–	(2,148)	–
Closing net book amount at 30 June 2018	22,435	–	6,291	15,600
Six months ended 30 June 2019				
Opening net book amount at 1 January 2019	15,384	–	6,777	15,800
Adoption of HKFRS16	(748)	23,552	–	–
Additions	63	–	–	–
Currency translation differences	(13)	–	–	–
Transfers	181	(181)	–	–
Depreciation and amortisation charges	(6,355)	(4,743)	(2,268)	–
Closing net book amount at 30 June 2019	8,512	18,628	4,509	15,800

(a) Valuation techniques

The Group measures its investment properties at fair value. The fair value of the Group's investment properties at 30 June 2019 has been determined on the basis of valuation carried out by the Group, and with the same amount as at 31 December 2018. Valuations were based on market comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as property size.

There were no changes to the valuation techniques during the six months ended 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES *(continued)*

(b) Information about fair value measurements using significant unobservable inputs (level 3)

Description	Fair value		Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of inputs of fair value
	30 June 2019	31 December 2018					
	RMB'000	RMB'000					
Industrial and dormitory buildings	15,800	15,800	Level 3	Market comparison approach	Unit price per square meter	For the six months ended 30 June 2019: RMB1,300 to RMB1,600 per square meter For the year ended 31 December 2018: RMB1,300 to RMB1,600 per square meter	The higher the market price, the higher the fair value

As of 30 June 2019, investment properties held by a subsidiary located in the People's Republic of China (the "PRC") were with a business model to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. The Group has measured the deferred tax relating to the temporary differences of these investment properties using the tax rates and the tax bases that are consistent with the expected manner of recovery of these investment properties (as of 31 December 2018: same).

7 INVENTORIES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Raw materials	1,477	1,561
Work in progress	231	666
Finished goods	37,806	40,892
	39,514	43,119

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB39,809,000 (for the six months ended 30 June 2018: approximately RMB27,803,000).

As at 30 June 2019, a provision of RMB5,743,000 was made to write down the properties under development (31 December 2018: RMB5,972,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 TRADE RECEIVABLES

	30 June 2019	31 December 2018
	RMB'000	<i>RMB'000</i>
Trade receivables (a)	46,902	72,953
Less: allowance for doubtful debts	(11,116)	(7,934)
Trade receivables – net	35,786	65,019

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

	30 June 2019	31 December 2018
	RMB'000	<i>RMB'000</i>
Within 60 days	21,526	23,207
61 days to 180 days	1,047	31,001
Over 181 days	13,213	10,811
Total	35,786	65,019

- (b) The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at 30 June 2019 was determined and disclosed as below:

	Current	Up to 60 days past due	Up to 120 days past due	Up to 180 days past due	More than 180 days past due	Total
30 June 2019	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Expected loss rate	–	0.2%	12.2%	22.7%	50.7%	
Gross carrying amount	20,213	2,697	493	3,118	20,381	46,902
Loss allowance	–	5	60	708	10,343	11,116
		Up to 60 days past due	Up to 120 days past due	Up to 180 days past due	More than 180 days past due	Total
31 December 2018	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expected loss rate	–	3.8%	15.5%	27.2%	49.5%	
Gross carrying amount	18,105	15,267	34,946	1,556	3,079	72,953
Loss allowance	–	587	5,401	423	1,523	7,934

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2019 RMB'000	31 December 2018 RMB'000
Other receivables	19,412	10,722
Prepayments	9,031	8,536
Amounts due from a related party (Note 23(d))	9,837	15,698
Deductible input value-added tax	3,523	2,905
	41,803	37,861
Less: non-current portion of deposit receivables and prepayments (a)	(146)	(166)
	41,657	37,695

(a) Non-current portion represented the rental deposits.

(b) As at 30 June 2019, the directors considered that the expected credit loss for other receivables due from third parties and related parties and prepayments were immaterial thus no loss allowance was made.

10 CASH AND CASH EQUIVALENTS

	30 June 2019 RMB'000	31 December 2018 RMB'000
Cash at bank and in hand:		
– Denominated in HKD	64,445	67,347
– Denominated in RMB	420,372	484,677
– Denominated in USD	684,347	675,201
– Denominated in other currencies	150	14
	1,169,314	1,227,239

Cash at banks earns interest at floating daily bank deposit rates.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital RMB'000	Share premium RMB'000
Six months ended 30 June 2018			
Balance at 1 January 2018 and 30 June 2018	74,611,669,087	150,172	4,454,940
Six months ended 30 June 2019			
Balance at 1 January 2019 and 30 June 2019	74,611,669,087	150,172	4,454,940

12 OTHER RESERVES

	Warrants reserve RMB'000	Financial assets at FVOCI RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Reserve fund RMB'000	Enterprise expansion reserve RMB'000	Total RMB'000
Six months ended 30 June 2018								
Balance at 1 January 2018	(168)	(168)	18,888	(22,502)	10,879	1,153	1,152	9,234
Net loss on fair value changes of FVOCI	-	(34)	-	-	-	-	-	(34)
Transfer to statutory reserve	-	-	-	-	4,881	-	-	4,881
Exchange differences on translating foreign operations	-	(2)	-	11,136	-	-	-	11,134
Balance at 30 June 2018	(168)	(204)	18,888	(11,366)	15,760	1,153	1,152	25,215
Six months ended 30 June 2019								
Balance at 1 January 2019	(168)	(254)	18,888	13,914	28,913	1,153	1,152	63,598
Net gain on fair value changes of FVOCI	-	28	-	-	-	-	-	28
Transfer to statutory reserve	-	-	-	-	5,509	-	-	5,509
Exchange differences on translating foreign operations	-	-	-	393	-	-	-	393
Balance at 30 June 2019	(168)	(226)	18,888	14,307	34,422	1,153	1,152	69,528

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 BORROWINGS

	30 June 2019 RMB'000	31 December 2018 RMB'000
Other borrowings – unsecured	52,632	52,632
Less: amounts due for settlement within one year	(26,316)	–
	26,316	52,632

The unsecured other borrowings denominated in HK\$ and granted from independent third parties carry fixed interest rate at 5% per annum.

14 TRADE PAYABLES

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within 60 days	12,552	16,123
61 days to 150 days	594	7,068
Over 150 days	399	1,474
	13,545	24,665

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 OTHER PAYABLES

	30 June 2019 RMB'000	31 December 2018 RMB'000
Other payables (i)	137,900	196,537
Accrued expenses	8,105	12,856
Provisions for other taxes	3,998	1,668
Amounts due to related parties (Note 23(d))	629	521
	150,632	211,582

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

16 EXPENSES BY NATURE

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

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Staff costs	47,529	53,244
Cost of inventories sold	39,809	27,803
Depreciation and amortisation	13,366	10,275
Rental expense	2,395	5,046
Travelling expense	1,992	1,296
Advertising and promotion costs	1,904	5,037
Legal and professional fees	1,429	1,175
Write-down of inventories	(229)	–
Reversal of provisions and other payables (a)	(1,042)	(5,927)

- (a) During the six months ended 30 June 2019, the Group assessed the provisions for the taxes and surcharges in relation with certain transactions for which the ultimate tax determination is uncertain. Management considered provisions of approximately RMB1,042,000 (six months ended 30 June 2018: RMB5,927,000) were not necessary and determined to reverse the provisions during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 OTHER INCOME

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Income from network equipment usage and maintenance service (Note 23(b))	3,664	3,554
Subleasing income	1,050	–
Dividend income from FVOCI	23	26
Sundry income	313	85
	5,050	3,665

18 OTHER EXPENSES

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Cost of network equipment usage and maintenance service	1,715	3,430
Subleasing expenses	989	–
	2,704	3,430

19 FINANCE INCOME – NET

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Finance costs:		
– Interest expenses on borrowings	(1,294)	(1,209)
– Interest expenses on lease liabilities	(628)	(13)
	(1,922)	(1,222)
Finance income:		
– Interest income on deposits	11,219	4,201
Finance income – net	9,297	2,979

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 INCOME TAX EXPENSE

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Current income tax		
– provision for the period	10,318	30,962
– over-provision in respect of prior periods	(2,810)	(2,074)
	7,508	28,888
Deferred income tax	(4,548)	(377)
	2,960	28,511

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits for both periods, based on the existing legislation, interpretations and practices in respect thereof. No Hong Kong profits tax has been provided for during the six months ended 30 June 2019 and 2018.

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25%, except for a subsidiary of the Group which is entitled to preferential tax rate applicable to advanced and new technology enterprises of 15% (for the six months ended 30 June 2018: 25%) on the estimated assessable profit for the period, based on the existing legislation, interpretations and practices in respect thereof.

21 EARNINGS PER SHARE

(a) Basic

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

	Six months ended	
	30 June 2019	30 June 2018
Earnings attributable to owners of the Company (RMB'000)	53,594	101,001
Weighted average number of ordinary shares in issue (thousands)	80,571,604	81,165,285
Basic earnings per share (RMB cents per share)	0.0665	0.1244

The weighted average number of ordinary shares adopted in the calculation of basic earnings per share for the six months ended 30 June 2019 have been adjusted for the impact of the bonus element implicit in the discount for the new shares and the new warrants issued by the Company on 26 October 2015.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

21 EARNINGS PER SHARE (continued)

(b) Diluted

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

	Six months ended	
	30 June 2019	30 June 2018
Profit attributable to owners of the Company (RMB'000)	53,594	101,001
Weighted average number of ordinary shares in issue (thousands)	80,571,604	81,165,285
Adjustment for share warrants (thousands)	1,218,106	2,819,167
Weighted average number of ordinary shares for diluted earnings per share (thousands)	81,789,710	83,984,452
Diluted earnings per share (RMB cents per share)	0.0655	0.1203

22 COMMITMENTS

(a) Operating leases commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Not later than one year	2,051	20,910
Later than one year and not later than five years	–	27,382
	2,051	48,292

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS

The Group is controlled by China Evergrande Group (“Evergrande”), which owns indirectly 54% of the Company’s shares. Mount Yandang Investment Limited, a wholly-owned subsidiary of Tencent Holdings Limited, owns approximately 20% of the shares and the remaining 26% of the shares are widely held. The ultimate holding company of the Company is Evergrande. The ultimate parent of the Group is Xin Xin (BVI) Limited, incorporated in the British Virgin Islands. The ultimate controlling party of the Group is Dr. Hui Ka Yan.

In addition to those disclosed elsewhere in the financial information, during the six months ended 30 June 2019 and 2018, the Group had the following significant transactions with related parties, which are carried out in the normal course of the Group’s business:

(a) Name and relationship with related parties

Name	Relationship
Mascotte Investments Limited	A company in which a key management personnel of the Group has controlling interest
Evergrande	Ultimate holding company
Evergrande Internet Financial Services (Shenzhen) Co., Ltd (恒大互聯網金融服務(深圳)有限公司)	A subsidiary of Evergrande
Guangzhou Jiasui Property Co., Ltd (廣州市佳穗置業有限公司)	A subsidiary of Evergrande
Hengda Intelligent Technology (Shenzhen) Co., Ltd. (恒大智慧科技(深圳)有限公司)	A subsidiary of Evergrande

(b) Transactions with related parties

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
(i) Rental expenses:		
Guangzhou Jiasui Property Co., Ltd	992	740
Mascotte Investments Limited	626	585
	1,618	1,325
(ii) Revenue from network equipment usage and maintenance service:		
Evergrande Internet Financial Services (Shenzhen) Co., Ltd	3,664	3,554

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

23 RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

	Six months ended	
	30 June 2019 RMB'000	30 June 2018 RMB'000
Key management compensation:		
– Salaries and other benefits	3,275	3,117

(d) Balance with related parties

As at 30 June 2019 and 31 December 2018, the Group had the following significant balances with related parties:

	30 June 2019 RMB'000	31 December 2018 RMB'000
	Due from related parties:	
– A key management personnel (i)	961	2,682
– Evergrande Internet Financial Services (Shenzhen) Co., Ltd	4,140	8,280
– Hengda Intelligent Technology (Shenzhen) Co., Ltd.	4,736	4,736
	9,837	15,698
Due to related parties (ii):		
– Guangzhou Jiasui Property Co., Ltd	521	521
– Evergrande	108	–
	629	521

(i) Amounts due from a key management personnel were unsecured, interest-free and repayable on demand.

(ii) Amounts due to related parties represented the rental fee payable and payments of expenses by the ultimate holding company on behalf of the Group, which are unsecured, interest-free and repayable on demand.



MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2019, by taking serving users as its core value and driving its business structuring under long-term view as its direction, the Group, as an integrated internet service operator developed under the platform-like operation thinking, has actively explored the improvement of its existing businesses to build the Company's core competitiveness towards the future. The Group has promoted the synergetic development of its 3 major businesses, namely the internet home furnishing business, internet materials business and smart community services.

FINANCIAL PERFORMANCE SUMMARY

The Group recorded a profit attributable to owners of the Company of approximately RMB53.6 million for the six months ended 30 June 2019, which decreased by approximately RMB47.4 million as compared to a profit of approximately RMB101.0 million for the six months ended 30 June 2018. The decrease in the profit for the six months ended 30 June 2019 was mainly due to a decrease in profit in the internet community and related services business segment, which contributed a segment profit of approximately RMB55.1 million for the six months ended 30 June 2019 as compared to a segment profit of approximately RMB124.4 million for the six months ended 30 June 2018.

The basic and diluted earnings per share were RMB0.0665 cents and RMB0.0655 cents for the six months ended 30 June 2019 respectively as compared to the basic and diluted earnings per share of RMB0.1244 cents and RMB0.1203 cents for the six months ended 30 June 2018.

Internet Community and Related Services

During the six months ended 30 June 2019, the Group conducted its internet community and related services business in the communities across China, and its turnover decreased from approximately RMB194.9 million for the six months ended 30 June 2018 to approximately RMB136.1 million for the six months ended 30 June 2019, including revenue from internet home furnishing sector of approximately RMB103.1 million, revenue from internet materials business sector of approximately RMB31.7 million, and revenue from other sectors of approximately RMB1.3 million.

The costs of internet community and related services business are mainly labour costs, depreciation and amortisation costs and material procurement costs. Gross profit margin of such segment was approximately 69.2%. After deducting distribution costs and administrative expenses of approximately RMB39.0 million, the segment recorded a profit of approximately RMB55.1 million.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Internet Home Furnishing Business

In the first half of 2019, while the Group improved the functions and services of online shopping mall, it also opened a total of over 800 offline experience sample rooms in the community. With the support of the comprehensive online and offline marketing system, the Group continuously realised scale development through standardised service. As at 30 June 2019, the Group operated internet home furnishing business at 407 projects in 188 cities and provided furnishing design and sales plans to a total of over 160,000 community property owners.

The Group's internet home furnishing business covers the categories of products such as customised furniture, home appliances, balcony textile art products and soft decorations, decoration projects and kitchen supplies, which would meet customers' consumption needs for one-stop home furnishing. In the first half of 2019, under the circumstance of consumption upgrade, the Group continued to deepen its cooperation with 25 leading brands in the "Home Furnishing Alliance" to ensure the satisfaction of consumers' demands for high quality products and services. In the meantime, the Group continued to optimise the partner rating system, to conduct comprehensive appraisals upon the products and services provided by the suppliers and only selected those qualified which based on strict assessment criteria. The Group also strived to improve the users' experience in home furnishing marketing, logistics and distribution, installation and after-sales services and to develop a standardised service process. At the same time, the Group portrayed a typical user of home furnishing from multiple dimensions including age, academic background, family information and consumption budgets to improve the matching between the user's needs and products and services provided, and accelerated the transformation from selling single products to selling scenario lifestyles. In addition, by embracing different consumption scenarios of users, the Group effectively understood users' consumption demands and continued to optimise installment payment services for home furnishing consumption.

2. Internet Materials Business

The internet materials business of the Group took full advantage of our mature supply chain system of high-quality decorations to consolidate quality resources in the household building materials industry, striving to provide small and medium-sized properties and decoration companies with high-quality building materials supply chain service. In terms of prices, the Group enjoyed obvious advantage in prices leveraging its strengths of economies of scale in centralized procurement; in terms of the diversity of product offering, the Group established cooperation relationship with leading brands by types of products; in terms of product quality, the Group obtained goods from manufacturers to guarantee the authenticity of its products; and in terms of delivery services, the Group built five major stocking and warehousing centres.

Since the second half of 2018, the Group entered into agreements with operators in various cities across the PRC. Operators are responsible for setting up showrooms, establishing warehouses, organising teams in charge of marketing, storage and delivery, installation and after-sales services, and selling household building materials products to small and medium-sized properties and decoration companies. The new model of the Group's internet materials business will be proceeded as per our business plan.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Smart Community Services

During the first half of 2019, the Group continued to leverage HengTen Mimi, one of its smart community services platform, to support communities with property service platform. The smart community services platforms of the Group were mainly for providing support in relation to property fee payment, event reporting, repair reporting and community intelligentization.

Investments

In 2018, the Company have sold all of the financial assets at fair value through profit or loss. During the six months ended 30 June 2019, there was no any new investment.

Loan financing

During the six months ended 30 June 2019, no new loan was granted and therefore no interest income was generated for this segment (six months ended 30 June 2018: nil).

Property investment

During the six months ended 30 June 2019, no rental income was generated.

The fair value of the investment properties remained constant with no material change in market price of properties.

Manufacture and sale of accessories

The segment's turnover decreased from approximately RMB35.3 million for the six months ended 30 June 2018 to approximately RMB28.1 million for the six months ended 30 June 2019, representing a decrease of approximately 20.4%, mainly due to a drop in sales orders.

The gross profit margin recorded approximately 32.5% for the six months ended 30 June 2019, with a slight increase of approximately 0.2 percentage point on average as compared to the gross profit margin for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OUTLOOK

Looking forward, the Group will actively explore the improvement of its existing business in order to create core competitiveness for the future and achieve a higher level of development.

1. Internet Home Furnishing Business

For internet home furnishing, the Group will build more outstanding business teams and continuously enhance operating level, while exploring in depth the demands of clients and gradually increase average transaction value and conversion rate. In the future, the Group will constantly increase the number of communities receiving services from it, effectively increase the number of clients using its services, and continuously facilitate the standardization and scale-up of the operation of its internet home furnishing business.

2. Smart Community Services

For smart community services, while providing platform support to basic property services, the Group will also increase its input in community intelligentization in order to provide quality smart community services to more communities.

3. Internet Materials Business

In terms of the internet materials business, the Group will further build an internet materials platform and expand the scope of business to cover a complete range of home furnishing construction materials, aiming to offer businesses and customers with efficient connection and transaction matching and building an ecosystem for the home furnishing and construction materials platform.

The Group endeavours to build a leading platform of internet materials in the industry. The Group has a prominent competitive advantage in terms of product price, and will develop city operators and set up experience stores in cities within the country. Other than consolidating a complete range of the resources for home furnishing and construction materials, the Group will also increase the trading volume of its platform by completely channelling the online and offline customer's flow. The Group will continue to promote the steady development of the internet materials business.

Manufacture and sales of accessories

The Group expects that the general demand for photographic accessories will further decline. Nevertheless, the Group has developed several complex products with integrated circuit, which are successively launched. The Group will continuously develop products to suit customers' needs to increase this segment's turnover, and will continuously control its cost, strengthen customer relationship and capture any opportunity to improve this segment's position, both financially and operationally.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder's equity, borrowings and cash generated from operations. During the six months ended 30 June 2019, the liquidity of the Group was closely monitored by the Board and the Group reviewed its working capital and finance requirements on a regular basis.

Liquidity

As at 30 June 2019, the Group maintained cash and bank balances of approximately RMB1,169.3 million (as at 31 December 2018: approximately RMB1,227.2 million). The decrease in cash and bank balances was mainly attributable to the operations of internet community segment.

Borrowings and Gearing Ratio

As at 30 June 2019, the Group's net equity amounted to approximately RMB1,096.6 million (as at 31 December 2018: approximately RMB1,042.6 million) with total assets amounting to approximately RMB1,363.8 million (as at 31 December 2018: approximately RMB1,432.0 million). Net current assets were approximately RMB1,060.6 million (as at 31 December 2018: approximately RMB1,040.1 million) and the current ratio was 5.7 times (as at 31 December 2018: 4.1 times). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings plus obligations under finance lease and lease liabilities) over shareholders' funds was 6.9% (as at 31 December 2018: 5.1%).

CHARGE OF ASSETS

As at 30 June 2019, the Group did not have any charges on assets (as at 31 December 2018: nil).

COMMITMENT

As at 30 June 2019, the Group has capital commitment of approximately RMB31,000 mainly for system development and purchase of technology equipment in relation to the internet community services online platform (as at 31 December 2018: approximately RMB31,000).

CONTINGENT LIABILITIES

The Group had not provided corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 30 June 2019 (as at 31 December 2018: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi ("RMB") during the six months ended 30 June 2019. The internet community services business is mainly carried out in RMB in China Mainland. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the six months ended 30 June 2019, the Group closely monitored the fluctuation and does not expect any material fluctuation of exchange rates in the near future, but will continue to monitor it.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the six months ended 30 June 2019.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the six months ended 30 June 2019.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interest and short position of the Directors of the Company in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong) ("SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Hong Kong Listing Rules"), were as follows:

Name of Director	Nature of interest	Number of shares of the associated corporation held (Note 1)	Deemed interests in number of shares of the associated corporation (Note 1)	Total	Approximate percentage of shareholding of the associated corporation (Note 1)
Mr. Huang Xiangui	Beneficial owner	–	3,300,000	3,300,000	0.03%
Mr. Chau Shing Yim, David	Beneficial owner	600,000	400,000	1,000,000	0.01%

Note 1: China Evergrande Group, a holding company of the Company

MANAGEMENT DISCUSSION AND ANALYSIS

Name of Director	Nature of interest	Number of shares of the associated corporation held (Note 2)	Deemed interests in number of shares of the associated corporation (Note 2)	Total	Approximate percentage of shareholding of the associated corporation (Note 2)
Mr. Huang Xiangu	Beneficial owner	360,000	–	360,000	0.00%

Note 2: Evergrande Health Industry Group Limited, a subsidiary of China Evergrande Group (Note 1)

Save as disclosed above, as at 30 June 2019, none of the Directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations that were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2019, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Interest in the shares and underlying shares – long positions

Name of shareholder	Number of ordinary shares held	Deemed interests in number of shares	Total	Capacity	Approximate percentage of issued share capital of the Company
China Evergrande	40,417,570,910	4,706,459,934	45,124,030,844	Interest of a controlled corporation	60.47%
Solution Key Holdings Limited (Note 1)	40,417,570,910	4,706,459,934	45,124,030,844	Beneficial owner	60.47%
Tencent Holdings	14,697,298,513	1,711,439,976	16,408,738,489	Interest of a controlled corporation	21.99%
Water Lily Investment Limited (Note 2)	14,697,298,513	1,711,439,976	16,408,738,489	Beneficial owner	21.99%

Notes:

- (1) Solution Key Holdings Limited is an indirect wholly-owned subsidiary of China Evergrande.
- (2) Water Lily Investment Limited is an indirect wholly-owned subsidiary of Tencent Holdings.



MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any person who had interests or short positions in the shares and underlying shares of the Company which fell to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by Company under Section 336 of the SFO.

SHARE-BASED PAYMENTS

2013 Option Scheme

The Company's share option scheme (the "**2013 Option Scheme**") was adopted pursuant to a resolution passed by the Shareholders on 31 October 2013. The purpose of the 2013 Option Scheme is to provide incentives to eligible participants. During the six months ended 30 June 2019, no option had been granted and there was no outstanding share option of the Company as at 30 June 2019 (as at 31 December 2018: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, the Group employed approximately 371 employees. The remuneration policy of the Group is to reward its employees with reference to their qualifications, experience and work performance as well as market benchmarks. Employee benefits include medical insurance coverage, mandatory provident fund and share option scheme. Total staff costs for the six months ended 30 June 2019, including directors' emoluments, amounted to approximately RMB47.5 million.

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

AUDIT COMMITTEE

The audit committee is principally responsible for reviewing of effectiveness of the Company's internal audit function, reviewing and supervising the Group's financial reporting process, risk management and internal control system and providing advice and recommendations to the Board. The audit committee comprises three independent non-executive Directors ("INED(s)") of the Company, namely Mr. Chau Shing Yim, David (as the chairman of the audit committee), Mr. Nie Zhixin and Mr. Chen Haiquan. The revised terms of reference of the audit committee are consistent with the terms set out in the relevant section of the Corporate Governance Code (the "Code") contained in Appendix 14 to the Listing Rules. No changes were made to the terms of reference of the audit committee during the six months ended 30 June 2019.

The interim financial information of the Company for the six months ended 30 June 2019 has been reviewed by the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group, and discussed legal and compliance, internal controls, risk management and financial reporting matters including the review of the unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019.



MANAGEMENT DISCUSSION AND ANALYSIS

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2019 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

A remuneration committee has been established in accordance with the requirements of the Listing Rules. The remuneration committee comprises two INEDs, namely Mr. Chau Shing Yim, David (as the chairman of the remuneration committee) and Mr. Nie Zhixin and one executive Director, namely Mr. Xu Wen. The primary duties of the remuneration committee are to review and determine the remuneration policy and packages of the Directors and senior management. No Director is involved in deciding his/her own remuneration.

NOMINATION COMMITTEE

A nomination committee has been established in accordance with the requirements of the Code. The nomination committee comprises two INEDs, namely Mr. Nie Zhixin and Mr. Chen Haiquan and one executive Director, namely Mr. Xu Wen (as the chairman of the nomination committee). The primary duties of the nomination committee are to review the structure, size and composition of the Board, and select and make recommendations to the Board on the appointment of Directors and senior management.

CORPORATE GOVERNANCE

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the six months ended 30 June 2019 except for the following deviations from the Code provision:

- Code provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the six months ended 30 June 2019, the Company has no such title as chief executive officer. The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operation and execution is vested in the Board itself.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in Appendix 10 to the Listing Rules as the code of conduct for securities transactions conducted by the Directors. The Company, having made detailed and cautious enquiries, confirmed that all Directors have abided by the Model Code for the six months ended 30 June 2019.



MANAGEMENT DISCUSSION AND ANALYSIS

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 22 August 2019