恒腾网络
hengten networks

HENGTEN NETWORKS GROUP LIMITED
恒騰網絡集團有限公司
(a company incorporated in Bermuda with limited liability)
(Stock Code: 136)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	2018	2017	Year on Year
	RMB'000	*RMB'000*	
Revenue	**499,419**	261,750	+ 90.8%
Gross profit	**357,631**	182,414	+ 96.1%
Gross profit margin	**71.6%**	69.7%	Up by 1.9 percentage points
Net profit	**125,256**	92,852	+ 34.9%
Net profit margin	**25.1%**	35.5%	Down by 10.4 percentage points
Basic earnings per share	**RMB0.1545 fen**	RMB0.1185 fen	+ 30.4%
Diluted earnings per share	**RMB0.1499 fen**	RMB0.1172 fen	+ 27.9%

RESULTS

The board of directors (the "**Board**" or the "**Directors**") of HengTen Networks Group Limited (the "**Company**"or "**HengTen Networks**") announces the consolidated results of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2018 together with comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**Year ended 31 December 2018** *RMB'000*	Year ended 31 December 2017 *RMB'000*
Revenue	*2*	**499,419**	261,750
Cost of sales	*3*	**(141,788)**	(79,336)
Gross profit		**357,631**	182,414
Selling and marketing costs	*3*	**(93,913)**	(14,325)
Administrative expenses	*3*	**(116,857)**	(51,334)
(Net impairment losses)/reversal of impairment losses on financial assets		**(6,661)**	1,441
Net change in fair value of financial assets at fair value through profit or loss		**(7,361)**	10,791
Other income	*4*	**9,453**	2,019
Other expense	*5*	**(8,580)**	–
Other gains/(losses) - net	*6*	**948**	(301)
Operating profit		**134,660**	130,705
Finance costs	*7*	**(2,544)**	(8,052)
Finance income	*7*	**14,001**	1,231
Finance income/(costs) - net	*7*	**11,457**	(6,821)
Profit before income tax		**146,117**	123,884
Income tax expenses	*8*	**(20,861)**	(31,032)
Profit for the year		**125,256**	92,852

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — *continued*

	Note	**Year ended 31 December 2018** *RMB'000*	Year ended 31 December 2017 *RMB'000*
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of debt instruments at fair value through other comprehensive income		**(56)**	–
Changes in the fair value of available-for-sale financial assets		**–**	(65)
Currency translation difference		**36,386**	(47,134)
Other comprehensive income for the year, net of tax		**36,330**	(47,199)
Total comprehensive income for the year		**161,586**	45,653
Profit/(loss) attributable to:			
Owners of the Company		**124,496**	96,216
Non-controlling interests		**760**	(3,364)
		125,256	92,852
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**160,826**	49,017
Non-controlling interests		**760**	(3,364)
		161,586	45,653
Earnings per share for profit attributable to owners of the Company for the year: (expressed in RMB fen per share)	*9*		
Basic earnings per share		**0.1545**	0.1185
Diluted earnings per share		**0.1499**	0.1172

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 December 2018** *RMB'000*	31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**15,384**	27,324
Intangible assets	*10*	**6,777**	8,443
Land use rights		**–**	85
Investment properties		**15,800**	15,600
Financial asset at fair value through other comprehensive income		**589**	–
Available-for-sale financial assets		**–**	645
Prepayments	*12*	**166**	183
Deferred tax assets		**20,195**	771
		58,911	53,051
Current assets			
Inventories		**43,119**	4,616
Trade receivables	*11*	**65,019**	177,612
Other receivables and prepayments	*12*	**37,695**	16,278
Financial assets at fair value through profit or loss		**–**	53,042
Cash and cash equivalents		**1,227,239**	901,165
		1,373,072	1,152,713
Total assets		**1,431,983**	1,205,764
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**150,172**	150,172
Share premium		**4,454,940**	4,454,940
Other reserves		**63,598**	9,234
Accumulated losses		**(3,627,632)**	(3,734,094)
		1,041,078	880,252
Non-controlling interests		**1,563**	803
Total equity		**1,042,641**	881,055

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — *continued*

	Notes	**31 December 2018** ***RMB'000***	31 December 2017 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**52,632**	50,000
Obligations under finance leases		**115**	461
Deferred tax liabilities		**3,657**	3,551
		56,404	54,012
Current liabilities			
Contract liabilities		**51,323**	–
Obligations under finance leases		**370**	372
Trade payables	*13*	**24,665**	65,661
Other payables	*14*	**211,582**	170,588
Current income tax liabilities		**44,998**	34,076
		332,938	270,697
Total liabilities		**389,342**	324,709
Total equity and liabilities		**1,431,983**	1,205,764

1. BASIS OF PREPARATION

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

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

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKAS 40 (Amendment)	Transfers to Investment Property
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration
Annual Improvement 2014 – 2016 cycle	

The adoption of the above new and amended standards did not have any material impact on the consolidated financial statements except for disclosure set out in Note 1(c).

(b) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to HKFRS Standards 2015 – 2017 Cycle		1 January 2019
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
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 except for HKFRS 16.

(i) HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB48,292,000, and approximately RMB1,446,000 relate to short-term leases and nil to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately RMB44,518,000 on 1 January 2019, lease liabilities of RMB41,133,000 (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) and deferred tax liabilities of RMB846,000. Overall net assets will be approximately RMB2,539,000 higher, and net current assets will be RMB17,893,000 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit after tax will decrease by approximately RMB14,732,000 for 2019 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately RMB19,731,000, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately RMB19,464,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(c) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

(i) Impact on the financial statements

The Group generally adopted HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from HKFRS 9 and HKFRS 15 are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	**31 December 2017 As originally presented**	**HKFRS 9**	**HKFRS 15**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Financial assets at fair value through other comprehensive income ("**FVOCI**")	–	645	–	645
Available-for-sale financial assets	645	(645)	–	–
Total non-current assets	**645**	**–**	**–**	**645**

Balance sheet (extract)	**31 December 2017 As originally presented**	**HKFRS 9**	**HKFRS 15**	**1 January 2018 Restated**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Contract liabilities	–	–	5,163	5,163
Other payables	170,588	–	(5,163)	165,425
Total current liabilities	**170,588**	**–**	**–**	**170,588**

Statement of comprehensive income (extract) 2017	31 December 2017 As originally presented	HKFRS 9	HKFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Other gains/(losses) - net	1,140	(1,441)*	(301)
(Net impairment losses)/reversal of impairment losses on financial assets	–	1,441*	1,441
Operating profit	**1,140**	**–**	**1,140**

* Reclassification of impairment losses on financial assets required as a result of consequential changes made to HKAS 1 *Presentation of Financial Statements*.

(ii) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies. No material adjustments were made to the amounts recognised in the financial statements.

The changes on the classification and measurement models introduced by HKFRS 9 do not have material impact on the Group's existing financial assets and liabilities, as they mainly comprised of loans and receivables and financial liabilities at amortised costs as determined under HKAS 39, which are similar to the financial assets and liabilities measured at amortised cost under HKFRS 9, and are expected to continuously be initial recognised at fair value and subsequently measured at amortised cost.

The Group was required to revise its impairment methodology under HKFRS 9. The Directors of the Group consider that there is no material impact of the change in impairment methodology on the Group's retained earnings and equity.

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	**FVOCI**	**Available-for-sale financial assets**
	RMB'000	***RMB'000***
Closing balance 31 December 2017 - HKAS 39*	–	645
Reclassify investments in bonds from available-for-sale to financial assets at FVOCI	645	(645)
Opening balance 1 January 2018 - HKFRS 9	**645**	**–**

The impact of these changes on the Group's equity is as follows:

Opening balance – HKAS 39	**Effect on FVOCI reserve**	**Effect on Investment revaluation reserve**
	RMB'000	***RMB'000***
Closing balance 31 December 2017 - HKAS 39	–	(168)
Reclassify investments in bonds from available-for-sale to financial assets at FVOCI	(168)	168
Opening balance – HKFRS 9	**(168)**	**–**

Reclassify investments in bonds from available-for-sale to financial assets at FVOCI

Certain investments in Allianz US High-yield-bond Fund ("**Bond Fund**") were reclassified from available-for-sale to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, the Bond Fund with a fair value of RMB645,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value losses of RMB168,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (HKAS 39)	**New (HKFRS 9)**	**Original**	**New**	**Difference**
			RMB'000	***RMB'000***	***RMB'000***
Non-current financial assets					
Investments in Allianz US High-yield-bond Fund	Available for sale	FVOCI	645	645	–
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	177,612	177,612	–
Other receivables*	Amortised cost	Amortised cost	12,161	12,161	–
Financial assets at fair value through profit or loss	Fair value through profit or loss ("**FVPL**")	FVPL	53,042	53,042	–

* Other receivables is the other receivables and prepayments excluding prepayments and deductible input value-added tax.

Impairment of financial assets

The Group has four types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables
- other receivable
- debt investments carried at FVOCI, and
- cash and cash equivalents

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(iii) HKFRS 15 Revenue from Contracts with Customer

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The directors of the Group consider the changes on the Group's revenue recognition do not have material impact on the amounts recognised in the financial statements. Thus, the Group adopted HKFRS 15 without restating comparative information.

The following adjustment were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	Notes	**HKAS 18 Carrying amount 31 December 2017** *RMB'000*	**Reclassi-fication** *RMB'000*	**HKFRS 15 Carrying amount 1 January 2018** *RMB'000*
Other payables and advance receipts	*(i)*	170,588	(5,163)	165,425
Contract liabilities	*(i)*	–	5,163	5,163

(i) Presentation of assets and liabilities related to contracts with customers

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

2. SEGMENT INFORMATION

The chief operating decision-maker ("**CODM**") 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, other (losses)/gains, other income and finance costs are not included in the results for each operating segment.

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2018 are as follows:

	Internet community and related businesses *RMB'000*	**Property investment and other investment** *RMB'000*	**Manufacture and sales of accessories** *RMB'000*	**Consolidated** *RMB'000*
Revenue	**425,834**	**–**	**73,585**	**499,419**
Timing of revenue recognition				
At a point	**42,113**	**–**	**73,585**	**115,698**
Over time	**383,721**	**–**	**–**	**383,721**
Dividend income from financial assets at FVOCI (2017: Dividend income from available-for-sale financial assets) *(Note 4)*	**–**	**51**	**–**	**51**
Dividend income from financial assets at FVPL *(Note 4)*	**–**	**1,434**	**–**	**1,434**
Net change in fair value of financial assets at fair value through profit or loss	**–**	**(7,361)**	**–**	**(7,361)**
	425,834	**(5,876)**	**73,585**	**493,543**
Segment profit/(loss)	**153,996**	**(6,902)**	**6,558**	**153,652**
Unallocated corporate expenses				**(7,436)**
Unallocated other (losses)/gains				**(8)**
Unallocated finance costs-net				**(91)**
Profit before income tax				**146,117**
Depreciation	**15,434**	**1**	**771**	**16,206**
Amortisation	**4,372**	**–**	**85**	**4,457**

The segment results and other segment items included in the consolidated statement of comprehensive income for the year ended 31 December 2017 are as follows:

	Internet community and related businesses *RMB'000*	Property investment and other investment *RMB'000*	Manufacture and sales of accessories *RMB'000*	Consolidated *RMB'000*
Revenue	193,008	2,032	66,710	261,750
Timing of revenue recognition				
At a point	–	2,032	66,710	68,742
Over time	193,008	–	–	193,008
Dividend income from available-for-sale financial assets *(Note 4)*	–	58	–	58
Interest income on financial assets at amortised cost *(Note 4)*	–	1,830	–	1,830
Net change in fair value of financial assets at fair value through profit or loss	–	10,791	–	10,791
	193,008	14,711	66,710	274,429
Segment profit/(loss)	124,922	13,507	2,985	141,414
Unallocated corporate expenses				(10,838)
Unallocated other income				91
Unallocated finance costs-net				(6,783)
Profit before income tax				123,884
Depreciation	13,645	–	1,234	14,879
Amortisation	3,678	–	261	3,939

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

	Internet community and related businesses *RMB'000*	**Property investment and other investment** *RMB'000*	**Manufacture and sales of accessories** *RMB'000*	**Consolidated** *RMB'000*
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**

Segment assets and liabilities as at 31 December 2017 are as follows:

	Internet community and related businesses *RMB'000*	Property investment and other investment *RMB'000*	Manufacture and sales of accessories *RMB'000*	Consolidated *RMB'000*
ASSETS				
Segment assets	210,837	69,287	20,801	300,925
Unallocated property, plant and equipment				1
Unallocated other receivables and prepayments				2,902
Deferred tax assets				771
Cash and cash equivalents				901,165
Consolidated total assets				1,205,764
LIABILITIES				
Segment liabilities	209,607	–	24,530	234,137
Unallocated other payables				2,945
Unallocated borrowings				50,000
Current income tax liabilities				34,076
Deferred tax liabilities				3,551
Consolidated total liabilities				324,709

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

- all assets are allocated to reportable and operating segments, other than certain property, plant and equipment, 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, certain borrowings, current income tax liabilities and deferred tax liabilities.

Geographical information

The Group's operations are located in the PRC and Hong Kong for the years ended 31 December 2018 and 2017.

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

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

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
PRC	**434,587**	202,250
Europe	**23,780**	23,532
Hong Kong	**31,533**	24,481
Others	**9,519**	11,487
	499,419	261,750

The Group's total revenue by category is detailed below:

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Net basis		
– Provision of internet community services	**383,721**	193,008
Gross basis		
– Sales of goods	**115,698**	66,710
– Dividend income	**–**	2,032
	499,419	261,750

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
PRC	**36,511**	50,090
Hong Kong	**1,616**	1,545
	38,127	51,635

Liabilities related to contracts with customers

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Contract liabilities - Internet community and related businesses	**51,323**	–

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

	31 December 2018 *RMB'000*
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	
Internet community and related businesses	**5,163**

Unsatisfied performance obligations

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

3. EXPENSES BY NATURE

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

	Year ended 31 December 2018	Year ended 31 December 2017
	RMB'000	*RMB'000*
Cost of inventories sold	**87,376**	41,558
Staff costs (a)	**172,877**	61,616
Rental expense	**16,126**	–
Depreciation	**16,206**	14,902
Materials used in research and development activities (a)	**8,132**	–
Advertising and promotion costs	**9,316**	6,468
Traveling expense	**6,777**	1,379
Legal and professional fees	**2,400**	3,337
Auditors' remuneration		
– Audit services (b)	**2,500**	2,380
– Non-audit services	**900**	1,011
Amortisation of land use rights	**85**	261
Amortisation of intangible assets	**4,372**	3,678
Reversal of provisions and other payables (c)	**(6,976)**	(10,755)
Write-down of inventories	**4,903**	12

(a) The Group has incurred development cost of about RMB53,727,000 in relation to the development of a smart community system. Management has expensed all these development costs since they considered that the system development work would not generate probable future benefits to the Group. Therefore management considered the development costs did not meet the conditions of capitalisation. The development cost included staff cost of approximately RMB45,595,000 and materials cost of approximately RMB8,132,000.

(b) The remuneration paid and payable to the auditor of the Company amounted to approximately RMB2,500,000. Others were paid to other auditors for audit services rendered to the subsidiaries of the Company.

(c) During the year ended 31 December 2018, the Group assessed on the provisions for other taxes and surcharges. Management considered provisions of approximately RMB6,976,000 (for the year ended 31 December 2017: approximately RMB10,755,000) were not necessary and determined to reverse the provisions during the year.

4. OTHER INCOME

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Income from network equipment usage and maintenance service	**7,123**	–
Interest income on financial assets at amortised cost	**–**	1,830
Dividend income from financial assets at FVOCI (2017: Dividend income from available-for-sale financial assets)	**51**	58
Dividend income from financial assets at FVPL	**1,434**	–
Sundry income	**845**	131
	9,453	2,019

5. OTHER EXPENSE

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Cost of network equipment usage and maintenance service	**(6,860)**	–
Sundry losses	**(1,720)**	–
	(8,580)	–

6. OTHER GAINS/(LOSSES) - NET

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Fair value gains on investment properties	**200**	200
Net losses on disposal of property, plant and equipment	**(1)**	(76)
Sundry gains/(losses)	**749**	(425)
	948	(301)

7. FINANCE INCOME/(COSTS) - NET

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Finance costs:		
– Interests expenses on borrowings	**(2,521)**	(8,014)
– Interests expenses on obligations under finance leases	**(23)**	(38)
	(2,544)	(8,052)
Finance income:		
– Interest income on saving deposits	**14,001**	1,231
Finance income/(costs)-net	**11,457**	(6,821)

8. INCOME TAX EXPENSES

	Year ended 31 December 2018 *RMB'000*	Year ended 31 December 2017 *RMB'000*
Current income tax		
– Provision for the year	**(45,018)**	(30,573)
– Over-provision in respect of prior years	**4,839**	1,266
Total current tax expense	**(40,179)**	(29,307)
Deferred income tax	**19,318**	(1,725)
Income tax expenses	**(20,861)**	(31,032)

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

	Year ended 31 December 2018	Year ended 31 December 2017
	RMB'000	*RMB'000*
Profit before income tax	**146,117**	123,884
Tax calculated at the tax rates applicable to profits/(losses) in the respective jurisdictions	**23,982**	32,080
Reversal of provisions and other payables not subject to tax	**(1,924)**	(3,235)
Income not subject to tax	**(515)**	(55)
Expenses not deductible for tax purposes	**1,117**	1,255
Tax losses and temporary differences for which no deferred income tax asset was recognised	**2,771**	4,358
Over-provision in respect of prior years	**(4,839)**	(1,266)
Effect of change in the tax rate	**269**	–
Utilisation of tax losses previously not recognised	**–**	(2,105)
	20,861	31,032

Hong Kong profits tax is calculated at 16.5% on the estimated assessable profit for the year, based on the existing legislation, interpretations and practices in respect thereof. No Hong Kong profits tax has been provided for during the year ended 31 December 2018 (year ended 31 December 2017: nil).

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25%, except for a subsidiary of the Group which is entitled to preferential tax rate applicable to advanced and new technology enterprises of 15% in 2018 (for the year ended 31 December 2017: 25%) on the estimated assessable profit for the year, based on the existing legislation, interpretations and practices in respect thereof.

9. EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to owners of the Company (RMB'000)	**124,496**	96,216
Weighted average number of ordinary shares in issue (thousands)	**80,571,604**	81,165,285
Basic earnings per share (RMB fen per share) for the year	**0.1545**	0.1185

The weighted average number of ordinary shares adopted in the calculation of basic earnings per share for the years ended 31 December 2018 and 2017 have been adjusted for the impact of the bonus element implicit in the discount for the new shares and the new warrants issued by the Company on 26 October 2015.

(b) Diluted

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

	Year ended 31 December 2018	Year ended 31 December 2017
Profit attributable to owners of the Company (RMB'000)	**124,496**	96,216
Weighted average number of ordinary shares in issue (thousands)	**80,571,604**	81,165,285
Adjustments for:		
– Share warrants (thousands)	**2,468,567**	951,165
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**83,040,171**	82,116,450
Diluted earnings per share (RMB fen per share) for the year	**0.1499**	0.1172

10. INTANGIBLE ASSETS

	Acquired internet platform *RMB'000*	Capitalised development costs *RMB'000*	Patent *RMB'000*	Total *RMB'000*
Year ended 31 December 2017				
Opening net book amount	977	5,145	–	6,122
Additions	1,123	4,876	–	5,999
Amortisation charge	(562)	(3,116)	–	(3,678)
Closing net book amount	1,538	6,905	–	8,443
At 31 December 2017				
Cost	2,240	10,610	–	12,850
Accumulated amortisation	(702)	(3,705)	–	(4,407)
Net book amount	1,538	6,905	–	8,443
Year ended 31 December 2018				
Opening net book amount	1,538	6,905	–	8,443
Additions	38	–	2,668	2,706
Amortisation charge	(765)	(3,537)	(70)	(4,372)
Closing net book amount	811	3,368	2,598	6,777
At 31 December 2018				
Cost	2,278	10,610	2,668	15,556
Accumulated amortisation	(1,467)	(7,242)	(70)	(8,779)
Net book amount	811	3,368	2,598	6,777

Amortisation of approximately RMB4,302,000 and RMB70,000 were included in "cost of sales" and "administrative expenses" (2017: approximately RMB3,678,000 was included in "cost of sales") respectively in the consolidated statement of comprehensive income.

11. TRADE RECEIVABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables - gross		
– Third parties	**72,953**	178,885
Less: allowance for doubtful debts	**(7,934)**	(1,273)
Trade receivables – net	**65,019**	177,612

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
– RMB	**64,600**	168,302
– US$	**8,311**	10,372
– EUR	**–**	182
– HK$	**42**	29
	72,953	178,885

(b) Trade receivables mainly arose from manufacture and sales of accessories and internet community and related businesses. The Group allows an average credit period ranging from 60 to 180 days to its trade customers. The following is an ageing analysis of trade receivables net of allowances for doubtful debts, based on the invoice date which approximates the revenue recognition date at the end of the reporting period.

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 60 days	**23,207**	171,397
61 days to 180 days	**31,001**	6,068
Over 181 days	**10,811**	147
	65,019	177,612

(c) Fair values of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

12. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Amounts due from related parties	**15,698**	2,549
Other receivables	**10,722**	9,612
Prepayments	**8,536**	1,125
Deductible input value-added tax	**2,905**	3,175
	37,861	16,461
Less: non-current portion of prepayments(a)	**(166)**	(183)
Current portion	**37,695**	16,278

(a) Non-current portion of prepayments represents the prepayments for the purchase of intangible assets.

(b) Other receivables and prepayments are denominated in the following currencies:

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
– RMB	**34,832**	13,297
– HK$	**2,946**	3,094
– EUR	**47**	42
– US$	**36**	28
	37,861	16,461

(c) Fair values of other financial assets at amortised cost

The other receivables and prepayments excluding prepayments and deductible input value-added tax are the financial assets at amortised cost. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

13. TRADE PAYABLES

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade payables	**24,665**	65,661

(a) Trade payables were denominated in the following currencies:

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
– RMB	**24,521**	64,153
– HK$	**91**	1,235
– US$	**53**	273
	24,665	65,661

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

	31 December 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 60 days	**16,123**	62,822
61 days to 150 days	**7,068**	2,371
Over 150 days	**1,474**	468
	24,665	65,661

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.

14. OTHER PAYABLES AND ACCRUALS

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
Other payables (a)	**196,537**	136,790
Accrued expenses	**12,856**	10,851
Provisions for other taxes	**1,668**	16,048
Advance receipts	**–**	5,163
Amount due to related parties	**521**	1,736
	211,582	170,588

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

(b) Other payables and accruals were denominated in the following currencies:

	31 December 2018	31 December 2017
	RMB'000	*RMB'000*
– RMB	**207,906**	165,127
– HK$	**3,632**	4,977
– US$	**44**	484
	211,582	170,588

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

During the year ended 31 December 2018 (the "**Year**"), the revenue of the Group amounted to RMB499.4 million, representing an increase of 90.8% as compared with the revenue of RMB 261.8 million for the year ended 31 December 2017. Such increase in revenue was mainly due to a substantial increase in revenue from internet community and related businesses.

The gross profit of the Group amounted to RMB357.6 million during the Year, representing an increase of 96.1% as compared with that of RMB182.4 million for the year ended 31 December 2017. The gross profit margin increased to 71.6% for the Year from 69.7% for the year ended 31 December 2017. Such increases were mainly due to the increase in total profit brought by increased business volume of internet community and related businesses.

Selling and marketing expenses increased to RMB93.9 million during the Year from RMB14.3 million in 2017, representing an increase of 555.6%, which was mainly due to the increase in rental of new warehouses in preparation for future business development.

Administrative expenses increased to RMB116.9 million during the Year from RMB51.3 million of last year, representing an increase of 127.6%. With the expansion of the Company's business, salary for management staff and other administrative expenses largely increased. Moreover, additional expenditures were put into exploring the feasibility of smart community systems.

Financial income increased to RMB14.0 million during the Year from RMB1.2 million in 2017, representing an increase of 1,037.4%, which was mainly due to higher interest income from fixed deposits in 2018.

Income tax expenses decreased to RMB20.9 million during the Year from RMB31.0 million in 2017, representing a decrease of 32.8%. Such decrease was mainly due to the high-tech enterprise qualification obtained by a PRC subsidiary, which allows the internet community and related businesses to enjoy preferential tax rates.

The Group recorded a profit attributable to owners of the Company of approximately RMB124.5 million during the Year, which increased by approximately RMB28.3 million or 29.4% as compared with the profit of approximately RMB96.2 million for the year ended 31 December 2017.

The basic and diluted earnings per share were RMB0.1545 fen and RMB0.1499 fen during the Year respectively, as compared to the basic and diluted earnings per share of RMB0.1185 fen and RMB0.1172 fen for the year ended 31 December 2017 respectively.

Internet Community and Related Businesses

In 2018, the Group conducted its internet community and related businesses in the communities across China, and its revenue increased from RMB193.0 million for the year ended 31 December 2017 to RMB425.8 million for the year ended 31 December 2018, which include, revenue from internet home furnishing sector of RMB231.5 million, revenue from internet materials logistics business sector and other sectors of RMB194.3 million.

The cost of internet community and related businesses mainly represented labour costs, depreciation and amortisation, and material procurement costs. Gross profit margin of such segment and segment profit were 78.4% and RMB154.0 million, respectively

BUSINESS REVIEW

During 2018, the economy of China has on the whole maintained stability while making steady progress with a year-on-year growth of 6.6% in its GDP, fulfilling the expected development goal of around 6.5% and showing that our country's total economic capacity has reached a new level. In the meantime, the Chinese government keeps on deepening its supply-side structural reform, comprehensively promoting "Internet +", and continuously transforming traditional industries with new technologies and new models, which contributes to a steady unleash of the dynamism of the economy.

The fast development of the Chinese economy and society and the favourable policies have provided the Group with a good environment for development. Our two substantial shareholders have also empowered the Group's development. China Evergrande Group ("**China Evergrande**") (3333.HK) is one of the Fortune 500 enterprises with properties for the people as its core foundation and has more than 800 projects in over 280 cities across China. Tencent Holdings Limited ("**Tencent Holdings**") (0700.HK) is an internet-based technology and cultural enterprise. At the end of the third quarter of 2018, the total number of monthly active accounts of Weixin, WeChat and QQ of Tencent Holdings reached almost 1.9 billion.

Benefiting from the general environment of rapid growth of the PRC economy and favourable policies, as well as the strong support from our two substantial shareholders, the Group not only has continuously optimized its business structure but also steadily enhanced its quality and efficiency in 2018. The Group insists on using the platform operation thinking to develop as an integrated internet service operator. It takes serving users as its core work and empowering industries as its direction to coordinate and promote the joint development of its 3 core businesses, namely the internet community services business, internet home furnishing business and internet materials logistics business.

I. Internet Community Services

In 2018, the Group continued to rely on its internet community service platform, HengTen Mimi, to provide property service platform support for the China Evergrande Community.

For the HengTen Mimi App which serves property owners, the Group optimised its functions such as property service fee payment, property repair request and owners' voices. For the Mimi Housekeeper App which serves property management companies, the Group improved its functions including repair management, affair management and payment record search.

2. Internet Home Furnishing

The Group's internet home furnishing business is centered on consumers, and the Group is committed to satisfying the consumers' demands for a beautiful home life through creating physical scene experience in the sample rooms. For the year ended 31 December 2018, the Group operated internet home furnishing business at nearly 362 projects in 171 cities across China. During the reporting period, the Group provided furnishing design and sales plans to over 80,000 community property owners with sales floating through our platform of RMB2,006.3 million and recognised revenue of RMB231.5 million (2017: RMB145.8 million).

(1) Realization of standardized and large-scale operation

Relying on the mature O2O business model of "display on online shopping mall platform and experience at offline physical scenes", the Group continuously achieved standardized operating results and realized large-scale operation with the support of the comprehensive online and offline marketing system. In 2018, the Group opened a total of nearly 3500 offline experience sample rooms and accelerated the transformation from selling single products to selling scenario lifestyle.

(2) Optimization of product and service system

Our product system was getting increasingly diversified. While the Group continued on expanding the categories of products such as customized furniture, home appliances, balcony textile art products and other decorations and furnishings, we further diversified categories such as soft decorations, decoration projects and kitchen supplies, to meet the diversified needs of property owners.

Our brand management was further intensified. In 2018, the Group deepened its cooperation with 28 leading brands in the "Home Furnishing Alliance" to satisfy consumers' demands for high quality products and services, under the general background of consumption upgrading. In the meantime, the Group continued to optimize 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.

Our service quality has kept on improving. The Group strived to improve the customers' experience in home marketing, logistics and distribution, installation and aftersales and to build a standardized service process centering around users. At the same time, the Group portrayed a typical home user from multiple dimensions including age, academic background, family and consumption budgets to improve the matching between consumer needs and products and services provided and in order to improve the efficiency of provision of services.

Services were provided in more diversified forms. In response to the trend of consumption using installment payment, the Group launched installment payment services for home furnishing consumption around different customer consumption scenarios and consumption demands.

(3) Exploration of B2B business

In order to raise our home furnishing business to a new level, the Group has started to explore opportunities in B2B business and carry out research and development of integrated solutions for the design and supply of soft decoration for apartments and houses, so as to promote the B2B business to gradually achieve the target of standardized and large-scale development.

3. Internet Materials Logistics

In active response to the national policy call for high-quality decoration, the Group's internet materials logistics business is committed to providing premium high-quality construction material supply chain service. During the Year, the Group's internet materials logistics business recorded a gross merchandise volume[(Note)] of RMB1,037.4 million and a revenue of RMB181.7 million (2017: RMB36.7 million).

(1) Deep consolidation of high-quality resources in the construction materials industry

Leveraging on China Evergrande's 22-year mature supply chain system of high-quality decorations, the Group effectively utilised its use of extensive resources of China Evergrande including over 20 strategic partners for high-quality decoration and more than 200 material suppliers in the PRC. On the other hand, the Group also followed the improved supply chain management system of China Evergrande, including a national quality inspection system and a strict technical standard management system and a dynamic supplier assessment and management system.

(2) To provide high cost-effective products and services

In terms of price, the Group took advantage of the centralized procurement of China Evergrande to share the procurement price of first-tier real estate enterprises with our customers, which significantly reduced the overall procurement costs of customers of the Group.

Note: Gross merchandise volume represents total value of all orders for products and services placed on our online sales platform.

In terms of services, the Group had built an online mall that specialized in building materials, and constantly improved and optimized functions and services of the online mall, so as to foster a simple, transparent, safe and efficient trading environment and to improve customer procurement efficiency. The Group managed and coordinated the entire process of the supply chain, provided professional supporting procurement services, and strived to offer our customers effective procurement, authentic products guarantee, accurate delivery and other high-standard services enjoyed by first-tier real estate enterprises.

In terms of product range, the Group continued to expand its brand resources and had established a diversified brand portfolio which is competent to meet the various brand demands from different users; at the same time, the Group continued to replenish product category and specification to gradually cover the main categories of building materials products widely used in high-quality decoration industry.

In terms of quality, the Group engaged construction materials suppliers with strong qualifications to ensure the authenticity of product and the reliability and stability of product quality.

(3) To gradually optimize our service system

In 2018, the Group had established warehouse and logistic centers in five major regions including Tianjin, Foshan, Changshu, Wuhan and Chengdu, covering multiple regions in the North China, the South China, the East China, the Central China and the Southwest China. The Group also selected and developed local operators across the country, to provide distribution, installation and post-sales services to our end-users.

Manufacture and sales of accessories

The segment's revenue increased from RMB66.7 million during 2017 to approximately RMB73.6 million in 2018, representing an increase of 10.3%. It was mainly due to an increase in sales orders.

The gross profit margin of this segment dropped from 36.0% in 2017 to 32.1% in 2018, mainly due to more competition in 2018 from the market. In addition, with the decrease in general and administrative expenses and the reversal of provisions, the segment profit increased from RMB3.0 million for the year ended 31 December 2017 to RMB6.6 million for the year ended 31 December 2018.

Investments

During the Year, the Company sold all of the financial assets at fair value through profit or loss at net loss of RMB7.4 million.

Loan financing

During the Year, no new loan was granted and therefore no interest income was generated from this segment (as of 31 December 2017: nil).

Property investment

As of 31 December 2018, no rental income was generated.

With the increase in fair value of investment properties as at 31 December 2018 as compared with 31 December 2017, a fair value gain of approximately RMB0.2 million was recognized during the year ended 31 December 2018. The increase in fair value was mainly due to the increase in the market price of the investment properties.

BUSINESS OUTLOOK

Internet Community and Related Businesses

Looking forward, the Group will strive to achieve a higher level of development while maintaining the stability and continuity of its business strategy.

In terms of internet community services, the Group will continue to rely on China Evergrande's community resources to provide the better property service platform.

In the internet home furnishing business, relying on its mature home operation and service system, the Group will continue to carry out refined operation of its property delivery scenes, orderly expand the target user base, and firmly promote the standardized and large-scale operation of home furnishing business. The Group will continue to enrich the house product system, gradually expand the scope of partner brands for the "Home Alliance", and strive to improve the level of service. In the future, the Group will constantly meet the demand for improvement and personality of subgroups while meeting the upgraded consumption needs of most people. Besides, the Group will consolidate its advantageous resources to provide products, services and brands, gradually expand its B2B business model and continue to explore more home furnishing business scenes.

In the area of internet materials logistics, the Group will further strengthen the ability of resource integration, constantly enrich the categories and brands of building material products, and establish a better quality construction material procurement platform. The Group plans to further improve the construction material supply chain services to realize steady supply and fast delivery of construction material products. In addition, the Group will also continue to optimize business cooperation processes, improve the mode of cargo flow, and enhance the efficiency of supply chain operation. Meanwhile, the Group will improve the local operators system, continue to improve the efficiency of offline distribution, installation and aftersale services, in order to provide better quality construction material supply chain services.

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder's equity, borrowings and cash generated from operations. During the year ended 31 December 2018, the liquidity of the Group was closely monitored by the Board and the Group reviews its working capital and finance requirements on a regular basis.

Liquidity

As at 31 December 2018, the Group maintained cash and bank balance of approximately RMB1,227.2 million (as at 31 December 2017: approximately RMB901.2 million). The increase in cash and bank balance was mainly due to the advanced receipt from the provision of the "new properties with move-in condition" service in the internet community services segment.

Borrowings and Gearing Ratio

As at 31 December 2018, the Group's net equity amounted to approximately RMB1,042.6 million (as at 31 December 2017: approximately RMB881.1 million) with total assets amounted to approximately RMB1,432.0 million (as at 31 December 2017: approximately RMB1,205.8 million). Net current assets were approximately RMB1,040.1 million (as at 31 December 2017: approximately RMB882.0 million) and the current ratio was 4.1 times (as at 31 December 2017: 4.3 times). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings plus obligations under finance lease) over shareholders' funds was 5.1% (as at 31 December 2017: 5.8%).

COMMITMENT

As at 31 December 2018, the Group had capital commitment of approximately RMB31,000 mainly for the system development and purchase of technology equipment in relation to the internet community service online platform (as at 31 December 2017: approximately RMB3.1 million).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi ("**RMB**") as at 31 December 2018. The internet community service business is mainly carried out in RMB in the PRC. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the year ended 31 December 2018, the Group closely monitored the fluctuation and does not expect any material fluctuation of exchange rates in the near future, but will continue to monitor it.

CHARGE OF ASSETS

During the Year, the Group did not have any charges on assets (as at 31 December 2017, margin facilities of approximately RMB20.3 million from one regulated securities broker were granted to the Group under which financial assets at fair value through profit or loss of approximately RMB53.0 million were treated as collateral for the facilities granted.)

CONTINGENT LIABILITIES

The Company and the Group did not provide corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 31 December 2018 (as at 31 December 2017: nil).

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed approximately 448 employees. The remuneration policy of the Group is to reward its employees with reference to their qualifications, experience and work performance as well as to market benchmarks. Employee benefits include medical insurance coverage and mandatory provident fund, etc.. Total staff costs for the year ended 31 December 2018, including directors' emoluments, amounted to approximately RMB172.9 million (2017: RMB 61.6 million).

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (for the year ended 31 December 2017: nil).

REVIEW OF RESULTS

The Audit Committee of the Company consists of three of the independent non-executive directors of the Company, namely Mr. Chau Shing Yim, David, Mr. Nie Zhixin and Mr. Chen Haiquan. The Audit Committee assists the Board in, among others, providing an independent review of the completeness, accuracy and fairness of the financial statements of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2018.

The figures in this preliminary announcement of the results of the Group have been agreed to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018 by the auditor of the Company, PricewaterhouseCoopers. The work of PricewaterhouseCoopers in this respect, did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and, consequently, no assurance will be expressed on the preliminary announcement.

MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2018, there was no material acquisition and disposal.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the Year.

CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") during the year ended 31 December 2018 except for the following deviation from the Code provision:

- Code provision A.2.1 stipulated that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2018, 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 adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**") as the Company's code of conduct regarding securities transactions by Directors. Having made specific enquiries of all Directors, they confirmed that they had complied with the required standards as set out in the Model Code throughout the Year.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

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

2019 ANNUAL GENERAL MEETING

As at the date of this announcement, the Company has not determined the date when the Company's 2019 annual general meeting will be held and the relevant book closure arrangement. Further announcement(s) will be made by the Company as and when appropriate in accordance with the Listing Rules.

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 21 March 2019

As at the date of this announcement, the executive directors of the Company are Mr. Xu Wen, Mr. Liu Yongzhuo, Mr. Huang Xiangui and Mr. Zhuo Yueqiang; and the independent non-executive directors of the Company are Mr. Chau Shing Yim, David, Mr. Nie Zhixin, Mr. Chen Haiquan and Professor Shi Zhuomin.