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)
(Stock Code of Warrants: 1493)

2017
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xu Wen *(Chairman)*
(Appointed on 25 April 2017)
Ms. Zhang Xiaohua *(ex-Chairlady)*
(Resigned on 25 April 2017)
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 (Appointed on 25 April 2017)
Ms. Zhang Xiaohua (Resigned on 25 April 2017)
Mr. Nie Zhixin

Nomination Committee

Mr. Xu Wen *(Chairman)*
(Appointed on 25 April 2017)
Ms. Zhang Xiaohua *(ex-Chairlady)*
(Resigned on 25 April 2017)
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

Suites 1501-07
One Pacific Place
88 Queensway
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 22
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China (Asia) Limited

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

WEBSITE ADDRESS

http://www.htmimi.com

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**39,824**	40,424
Intangible assets	7	**11,274**	6,856
Deferred tax assets		**2,906**	2,594
Land use rights		**248**	388
Investment properties	7	**17,940**	17,248
Available-for-sale financial assets		**795**	795
Prepayments	10	**578**	5,779
		73,565	74,084
Current assets			
Inventories	8	**3,640**	2,475
Trade receivables	9	**41,182**	23,791
Other receivables and prepayments	10	**14,376**	12,799
Financial assets at fair value through profit or loss	11	**57,500**	51,240
Cash and cash equivalents	12	**936,256**	936,487
		1,052,954	1,026,792
Total assets		**1,126,519**	1,100,876
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	13	**149,223**	149,199
Share premium	13	**5,395,693**	5,393,295
Other reserves	14	**23,130**	16,402
Accumulated losses		**(4,609,252)**	(4,630,286)
		958,794	928,610
Non-controlling interests		**4,903**	4,677
Total equity		**963,697**	933,287

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	NOTE	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
LIABILITIES			
Non-current liabilities			
Borrowings	15	**60,000**	60,000
Obligations under finance leases		**778**	515
Deferred tax liabilities		**4,013**	3,776
		64,791	64,291
Current liabilities			
Trade payables	16	**7,173**	13,097
Advance receipts and other payables	17	**76,840**	83,735
Current income tax liabilities		**13,579**	6,278
Obligations under finance leases		**439**	188
		98,031	103,298
Total liabilities		**162,822**	167,589
Total equity and liabilities		**1,126,519**	1,100,876

The notes on pages 9 to 31 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended	
		30 June 2017	30 June 2016
		(Unaudited)	(Unaudited)
	NOTE	***HK$'000***	*HK$'000*
Revenue	*6*	**92,712**	60,246
Cost of sales	*18*	**(38,259)**	(36,304)
Gross profit		**54,453**	23,942
Selling and marketing costs	*18*	**(4,778)**	(2,702)
Administrative expenses	*18*	**(22,945)**	(17,598)
Changes in fair value of financial assets at fair value through profit or loss	*6,11*	**6,260**	(2,980)
Other income	*19*	**197**	804
Other gains/(losses) – net	*20*	**54**	(1,295)
Operating profit		**33,241**	171
Finance costs	*21*	**(1,513)**	(1,499)
Finance income	*21*	**555**	350
Finance costs – net	*21*	**(958)**	(1,149)
Profit/(loss) before income tax		**32,283**	(978)
Income tax (expense)/credit	*22*	**(7,770)**	404
Profit/(loss) for the period		**24,513**	(574)
Other comprehensive income			
Item that may be reclassified to profit or loss			
Net loss on fair value changes of available-for-sale financial assets		**–**	(2)
Exchange differences on translating foreign operations		**3,470**	(777)
Other comprehensive income for the period		**3,470**	(779)
Total comprehensive income for the period		**27,983**	(1,353)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

	NOTE	Six months ended 30 June 2017 (Unaudited) HK$'000	Six months ended 30 June 2016 (Unaudited) HK$'000
Profit/(loss) for the period attributable to:			
– owners of the Company		**24,415**	(686)
– non-controlling interests		**98**	112
		24,513	(574)
Total comprehensive income for the period attributable to:			
– owners of the Company		**27,757**	(1,390)
– non-controlling interests		**226**	37
		27,983	(1,353)
Earnings/(loss) per share attributable to owners of the Company for the period (expressed in HK cents per share)			
– Basic and diluted earnings/(loss) per share	*23*	**0.0301**	(0.0008)

The notes on pages 9 to 31 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company						
	Share capital *HK$'000* *(Note 13)*	Share premium *HK$'000* *(Note 13)*	Other reserves *HK$'000* *(Note 14)*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2016	147,179	5,193,669	20,329	(4,633,821)	727,356	4,627	731,983
Comprehensive income							
– (Loss)/profit for the period	–	–	–	(686)	(686)	112	(574)
– Other comprehensive income	–	–	(704)	–	(704)	(75)	(779)
Total comprehensive income	–	–	(704)	(686)	(1,390)	37	(1,353)
Transactions with owners							
– Issue of new shares upon exercise of bonus warrants	2	260	1	–	263	–	263
Balance at 30 June 2016	147,181	5,193,929	19,626	(4,634,507)	726,229	4,664	730,893

	Unaudited						
	Attributable to owners of the Company						
	Share capital ***HK$'000*** *(Note 13)*	**Share premium** ***HK$'000*** *(Note 13)*	**Other reserves** ***HK$'000*** *(Note 14)*	**Accumulated losses** ***HK$'000***	**Total** ***HK$'000***	**Non-controlling interests** ***HK$'000***	**Total equity** ***HK$'000***
Balance at 1 January 2017	**149,199**	**5,393,295**	**16,402**	**(4,630,286)**	**928,610**	**4,677**	**933,287**
Comprehensive income							
– Profit for the period	**–**	**–**	**–**	**24,415**	**24,415**	**98**	**24,513**
– Other comprehensive income	**–**	**–**	**3,342**	**–**	**3,342**	**128**	**3,470**
Total comprehensive income	**–**	**–**	**3,342**	**24,415**	**27,757**	**226**	**27,983**
Transactions with owners							
– Issue of new shares upon exercise of bonus warrants	**24**	**2,398**	**5**	**–**	**2,427**	**–**	**2,427**
– Expiry of bonus warrants	**–**	**–**	**399**	**(399)**	**–**	**–**	**–**
– Transfer to statutory reserve	**–**	**–**	**2,982**	**(2,982)**	**–**	**–**	**–**
Total transactions with owners	**24**	**2,398**	**3,386**	**(3,381)**	**2,427**	**–**	**2,427**
Balance at 30 June 2017	**149,223**	**5,395,693**	**23,130**	**(4,609,252)**	**958,794**	**4,903**	**963,697**

The notes on pages 9 to 31 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Six months ended	
		30 June 2017	30 June 2016
		(Unaudited)	(Unaudited)
	NOTE	***HK$'000***	*HK$'000*
Cash flows of operating activities			
Net cash generated from operations		**3,549**	71,089
Interest paid		**(1,513)**	(1,499)
Income tax paid		**(576)**	(172)
Net cash generated from operating activities		**1,460**	69,418
Cash flows of investing activities			
Purchase of property, plant and equipment		**(378)**	(43,146)
Purchase of intangible assets		**(6,064)**	–
Proceeds from disposal of property, plant and equipment		**29**	10
Investment income		**155**	–
Dividend received from available-for-sale financial assets		**34**	35
Interest received from short-term bank deposits		**555**	350
Net cash used in investing activities		**(5,669)**	(42,751)
Cash flows of financing activities			
Proceeds from exercise of bonus warrants		**2,427**	263
Repayment of obligations under finance leases		**(235)**	(161)
Net cash generated from financing activities		**2,192**	102
Net (decrease)/increase in cash and cash equivalents		**(2,017)**	26,769
Cash and cash equivalents at beginning of period		**936,487**	764,136
Exchange gain/(loss) on cash and cash equivalents		**1,786**	(6)
Cash and cash equivalents at end of period	*12*	**936,256**	790,899

Non-cash transactions

The principal non-cash transaction is the addition of obligations under finance leases for purchase of property, plant and equipment.

The notes on pages 9 to 31 are an integral part of this 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 ultimate holding company of the Company is China Evergrande Group ("Evergrande").

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

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 Hong Kong dollars ("HK$"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 25 August 2017.

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 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements of the Group for the year ended 31 December 2016, as described in those annual consolidated financial statements.

(a) Income taxes

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 ACCOUNTING POLICIES *(Continued)*

(b) New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the financial year beginning on 1 January 2017

HKAS 7 (Amendment)	Statement of cash flows
HKAS 12 (Amendment)	Income taxes
HKFRS 12 (Amendment)	Disclosure of interest in other entities

The adoption of the new and amended standards does not have significant impact on the condensed consolidated interim financial information, other than certain disclosures.

(c) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 Janauray 2017 and have not been early adopted by the Group

	Effective for accounting periods beginning on or after
HKFRS15 "Revenue from contracts with customers"	1 January 2018
HKFRS 9 "Financial instruments"	1 January 2018
Amendments to HKFRS 4, Insurance contracts "Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts"	1 January 2018
Amendment to HKFRS 1, "First time adoption of HKFRS"	1 January 2018
Amendment to HKAS 28, "Investments in associates and joint ventures"	1 January 2018
HK (IFRIC) 22, "Foreign currency transactions and advance consideration"	1 January 2018
HKFRS 16 "Leases"	1 January 2019
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, certain of which are relevant to the Group's operations. 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 15 and HKFRS 16.

3 ACCOUNTING POLICIES *(Continued)*

(c) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 Janauray 2017 and have not been early adopted by the Group *(Continued)*

HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (I) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract; (3) Determine the transaction price; (4) Allocate transaction price to performance obligations and (5) Recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an approach of transfer of risk and rewards to an approach based on transfer of control. HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Under HKFRS 15, an entity recognises revenue when a performance obligation is satisfied.

At this stage, the Group is not able to estimate the impact of HKFRS 15 on the Group's financial statements. The Group will make more detailed assessments of the impact over the next six months.

HKFRS 15 is mandatory for financial years commencing on or after I January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group is a lessee of certain offices and buildings, which are currently accounted for as operating leases under HKAS 17 based on the accounting policy as set out in Note 2.26. Under HKFRS 16, lessees are required to recognise a lease liability reflecting future lease payments and a right-of-use asset for all lease contracts in the statement of financial position. Lessees will also have to present interest expense on the lease liability and depreciation on the right-of-use asset in the income statement. In comparison with operating leases under HKAS 17, this will change not only the allocation of expenses hut also the total amount of expenses recognised for each period of the lease term. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term. The new standard has included an optional exemption for certain short-term leases and leases of low-value assets. This exemption can only be applied by lessees. The Group is expected to apply the new standard starting from the financial year beginning on or after 1 January 2019.

4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2016, with the exception of changes in judgments that are required when applying the Group's accounting policies to revenue recognition for the provision of internet community services. The Group provides internet platform usage services to its customers and the service fee is determined as a percentage of the transaction amount achieved by using the Group's platform. Therefore the Group consider it more appropriate to recognise service fee as revenue in the accounting period in which the services are rendered and on the basis of actual transaction amount achieved in the accounting period as a proportion of the total transaction amount estimated to be achieved by using the Group's platform instead of actual service hours provided as proportion of the total service hours to be provided, which was applied for the year ended 31 December 2016.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since 2016 year end.

5.2 Liquidity risk

Compared to the year ended 31 December 2016, there was no material change in the contractual undiscounted cash out flows for financial liabilities. As at 30 June 2017, balance of the Group's advance receipts was approximately HK$5,688,000 (31 December 2016: approximately HK$6,336,000) (Note 17).

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

5.3 Fair Value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See Note 7 for disclosures of the investment properties that are measured at fair value.

The following table presents the Group's financial assets that are measured at fair value at 30 June 2017 and 31 December 2016.

	Level 1 *HK$'000*
As at 30 June 2017	
Assets	
Financial assets at fair value through profit or loss	**57,500**
Available-for-sale financial assets	**795**
Total assets	**58,295**
As at 31 December 2016	
Assets	
Financial assets at fair value through profit or loss	51,240
Available-for-sale financial assets	795
Total assets	52,035

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 and cash equivalents
- Borrowings
- Trade and other payables
- Obligations under finance leases

6 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 four business segments: internet community services, investments, property 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 2017 are as follows:

	Internet community services *HK$'000*	Investments *HK$'000*	Property investment *HK$'000*	Manufacture and sales of accessories *HK$'000*	Consolidated *HK$'000*
Revenue	**56,371**	**145**	**–**	**36,196**	**92,712**
Dividend income from available-for-sale financial assets *(Note 19)*	**–**	**34**	**–**	**–**	**34**
Investment income *(Note 19)*	**–**	**155**	**–**	**–**	**155**
Changes in fair value of financial assets at fair value through profit or loss *(Note 11)*	**–**	**6,260**	**–**	**–**	**6,260**
	56,371	**6,594**	**–**	**36,196**	**99,161**
Segment profit/(loss)	**29,068**	**6,594**	**(586)**	**2,188**	**37,264**
Unallocated corporate expenses					**(4,048)**
Unallocated finance costs-net					**(933)**
Profit before income tax					**32,283**
Depreciation of property, plant and equipment	**(7,273)**	**–**	**–**	**(746)**	**(8,019)**
Amortisation of intangible assets and land use rights	**(1,779)**	**–**	**–**	**(148)**	**(1,927)**

6 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 2016 are as follows:

	Internet community services *HK$'000*	Investments *HK$'000*	Property investment *HK$'000*	Manufacture and sales of accessories *HK$'000*	Consolidated *HK$'000*
Revenue	8,045	2,269	–	49,932	60,246
Rental income *(Note 19)*	–	–	530	–	530
Dividend income from available-for-sale financial assets *(Note 19)*	–	35	–	–	35
Changes in fair value of financial assets at fair value through profit or loss *(Note 11)*	–	(2,980)	–	–	(2,980)
	8,045	(676)	530	49,932	57,831
Segment profit/(loss)	2,199	(676)	(1,843)	1,170	850
Unallocated corporate expenses					(690)
Unallocated finance costs-net					(1,138)
Loss before income tax					(978)
Depreciation of property, plant and equipment	(2,079)	–	–	(564)	(2,643)
Amortisation of land use rights	–	–	–	(157)	(157)

6 SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities as at 30 June 2017 are as follows:

	Internet community services *HK$'000*	Investments *HK$'000*	Property investment *HK$'000*	Manufacture and sales of accessories *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	85,405	58,296	17,940	22,275	183,916
Unallocated property, plant and equipment					32
Unallocated other receivables and prepayments					3,409
Deferred tax assets					2,906
Cash and cash equivalents					936,256
Consolidated total assets					1,126,519
LIABILITIES					
Segment liabilities	52,475	–	7	29,211	81,693
Unallocated advance receipts and other payables					3,537
Borrowings					60,000
Current income tax liabilities					13,579
Deferred tax liabilities					4,013
Consolidated total liabilities					162,822

6 SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities as at 31 December 2016 are as follows:

	Internet community services *HK$'000*	Investments *HK$'000*	Property investment *HK$'000*	Manufacture and sales of accessories *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	69,019	52,035	17,248	19,930	158,232
Unallocated property, plant and equipment					46
Unallocated other receivables and prepayments					3,517
Deferred tax assets					2,594
Cash and cash equivalents					936,487
Consolidated total assets					1,100,876
LIABILITIES					
Segment liabilities	52,907	–	–	30,803	83,710
Unallocated advance receipts and other payables					13,825
Borrowings					60,000
Current income tax liabilities					6,278
Deferred tax liabilities					3,776
Consolidated total liabilities					167,589

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 advance receipts and other payables, borrowings, current income tax liabilities and deferred tax liabilities.

7 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES

	Property, plant and equipment *HK$'000*	Intangible assets *HK$'000*	Investment properties *HK$'000*
Six months ended 30 June 2016			
Opening net book amount at 1 January 2016	3,804	–	19,992
Additions	26,723	–	–
Currency translation differences	(439)	–	(320)
Disposals	(58)	–	–
Fair value losses on investment properties	–	–	(952)
Depreciation charges	(2,895)	–	–
Closing net book amount at 30 June 2016	27,135	–	18,720
Six months ended 30 June 2017			
Opening net book amount at 1 January 2017	**40,424**	**6,856**	**17,248**
Additions	**6,608**	**5,940**	**–**
Currency translation differences	**1,000**	**257**	**466**
Disposals	**(175)**	**–**	**–**
Fair value gains on investment properties	**–**	**–**	**226**
Depreciation and amortization charges	**(8,033)**	**(1,779)**	**–**
Closing net book amount at 30 June 2017	**39,824**	**11,274**	**17,940**

(a) Valuation processes of the Group

The Group measures its investment properties at fair value. The fair value of the Group's investment properties at 30 June 2017 has been determined on the basis of valuation carried out by Asset Appraisal Limited, an independent and professionally qualified valuer.

Discussions of valuation processes and results were held between the management and the valuer at 30 June 2017, in line with the Group's interim reporting date.

(b) Valuation techniques

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 2017.

7 PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTIES *(Continued)*

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

Description	Fair value 30 June 2017 HK$'000	Fair value 31 December 2016 HK$'000	Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of inputs of fair value
Industrial and dormitory buildings	**17,940**	17,248	Level 3	Market comparison approach	Unit price per square meter	For the six months ended 30 June 2017: HK$1,314 to HK$1,941 per square meter For the year ended 31 December 2016: HK$1,080 to HK$1,667 per square meter	The higher the market price, the higher the fair value

As of 30 June 2017, 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 2016: same).

8 INVENTORIES

	30 June 2017 ***HK$'000***	31 December 2016 *HK$'000*
Raw materials	**608**	500
Work in progress	**696**	332
Finished goods	**2,336**	1,643
	3,640	2,475

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK$21,910,000 (for the six months ended 30 June 2016: approximately HK$30,867,000).

9 TRADE RECEIVABLES

	30 June 2017 HK$'000	31 December 2016 HK$'000
Trade receivables (a)		
– Third parties	**45,801**	27,339
– A related party *(Note 25(d))*	**–**	988
Trade receivables – gross	**45,801**	28,327
Less: allowance for doubtful debts	**(4,619)**	(4,536)
Trade receivables – net	**41,182**	23,791

(a) Trade receivables mainly arose from manufacture and sales of accessories and internet community services. The Group allows a 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 2017 HK$'000	31 December 2016 HK$'000
Within 60 days	**22,694**	19,369
61 days to 150 days	**18,045**	4,422
151 days to 365 days	**443**	–
	41,182	23,791

As at 30 June 2017, trade receivables of approximately HK$4,222,000 (31 December 2016: approximately HK$3,666,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables based on the due date were as follows:

	30 June 2017 HK$'000	31 December 2016 HK$'000
Within 60 days	**3,493**	3,232
61 days to 150 days	**729**	434
	4,222	3,666

9 TRADE RECEIVABLES *(Continued)*

(a) *(Continued)*

As at 30 June 2017, trade receivables of approximately HK$4,619,000 (31 December 2016: approximately HK$4,536,000) were fully impaired. The individually impaired receivables mainly relate to wholesalers, which are in unexpectedly difficult economic situations. The Group's policy on allowance for doubtful debts is based on the evaluation of collectability, age of accounts and on management's judgement including credit worthiness and past collection history of each customer.

The maximum exposure to credit risk at each balance sheet date is the carrying value of each class of receivables mentioned above.

10 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2017 *HK$'000*	31 December 2016 *HK$'000*
Prepayments	**1,118**	6,420
Deductible input value-added tax	**6,398**	6,663
Amounts due from a related party *(Note 25(d))*	**3,142**	3,123
Other receivables	**4,296**	2,372
	14,954	18,578
Less: non-current portion of prepayments (a)	**(578)**	(5,779)
	14,376	12,799

(a) Non-current portion of prepayments represented the prepayments for the purchase of network equipment and intangible assets.

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Held-for-trading investments		
Balance at the beginning of the period	**51,240**	50,020
Changes in fair value recognised in profit or loss	**6,260**	(2,980)
Balance at the end of the period	**57,500**	47,040

As at 30 June 2017, held-for-trading investments represented the Group's equity investments in certain Hong Kong listed companies, which were quoted in the Stock Exchange.

12 CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Cash at bank and in hand:		
– Denominated in HKD	**804,747**	815,469
– Denominated in RMB	**122,797**	107,793
– Denominated in USD	**8,552**	13,059
– Denominated in other currencies	**160**	166
	936,256	936,487

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

13 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital *HK$'000*	Share premium *HK$'000*
Six months ended 30 June 2016			
Balance at 1 January 2016	73,589,314,214	147,179	5,193,669
Issue of new shares upon exercise of bonus warrants	1,313,900	2	260
Balance at 30 June 2016	73,590,628,114	147,181	5,193,929
Six months ended 30 June 2017			
Balance at 1 January 2017	**74,599,533,447**	**149,199**	**5,393,295**
Issue of new shares upon exercise of bonus warrants	**12,135,640**	**24**	**2,398**
Balance at 30 June 2017	**74,611,669,087**	**149,223**	**5,395,693**

14 OTHER RESERVES

	Warrants reserve HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Reserve fund HK$'000	Enterprise expansion reserve HK$'000	Total HK$'000
Six months ended 30 June 2016								
Balance at 1 January 2016	(1,009)	(218)	13,901	5,488	–	1,084	1,083	20,329
Net loss on fair value changes of available-for-sale financial assets	–	(2)	–	–	–	–	–	(2)
Exchange differences on translating foreign operations	–	–	–	(702)	–	–	–	(702)
Issue of new shares upon exercise of bonus warrants	1	–	–	–	–	–	–	1
Balance at 30 June 2016	(1,008)	(220)	13,901	4,786	–	1,084	1,083	19,626
Six months ended 30 June 2017								
Balance at 1 January 2017	**(612)**	**(188)**	**13,901**	**(370)**	**1,504**	**1,084**	**1,083**	**16,402**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**2,982**	**–**	**–**	**2,982**
Exchange differences on translating foreign operations	**–**	**–**	**–**	**3,342**	**–**	**–**	**–**	**3,342**
Issue of new shares upon exercise of bonus warrants	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**5**
Transfer to accumulated losses upon expiry of bonus warrants	**399**	**–**	**–**	**–**	**–**	**–**	**–**	**399**
Balance at 30 June 2017	**(208)**	**(188)**	**13,901**	**2,972**	**4,486**	**1,084**	**1,083**	**23,130**

15 BORROWINGS

	30 June 2017 HK$'000	31 December 2016 HK$'000
Other borrowings – unsecured	**60,000**	60,000

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

The maturity and the exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of the period is as follows:

	30 June 2017 HK$'000	31 December 2016 HK$'000
2 – 5 years	**60,000**	60,000

16 TRADE PAYABLES

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

	30 June 2017 HK$'000	31 December 2016 HK$'000
Within 60 days	**3,790**	12,993
61 days to 150 days	**3,153**	69
Over 150 days	**230**	35
	7,173	13,097

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.

17 ADVANCE RECEIPTS AND OTHER PAYABLES

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Advance receipts of internet community services	**5,688**	6,336
Other payables	**56,890**	59,376
Accrued expenses	**6,063**	10,842
Provisions for other taxes	**8,199**	7,181
	76,840	83,735

18 EXPENSES BY NATURE

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

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Staff costs	**27,005**	17,047
Cost of inventories sold	**21,910**	30,867
Depreciation and amortisation	**9,960**	3,052
Advertising and promotion fees	**2,013**	6
Legal and professional fees	**1,592**	1,471
Directors' emoluments	**988**	859
Agent fees	**800**	1,400
Auditor's remuneration	**694**	580
Operating lease payments in respect of premises	**682**	1,374
Commission fees	**524**	918
Reversal of provisions and other payables (a)	**(6,249)**	(6,857)

(a) During the six months ended 30 June 2017, the Group assessed on the provisions for the taxes and surcharges in relation with certain trsansactions for which the ultimate tax determination is uncertain. Management considered provisions of approximately HK$6,249,000 (six months ended 30 June 2016: approximately HK$6,857,000) were not necessary and determined to reverse the provisions during the period.

19 OTHER INCOME

	Six months ended 30 June 2017 HK$'000	Six months ended 30 June 2016 HK$'000
Investment income	**155**	–
Dividend income from available-for-sale financial assets	**34**	35
Rental income	**–**	530
Sundry income	**8**	239
	197	804

20 OTHER GAINS/(LOSSES) – NET

	Six months ended 30 June 2017 HK$'000	Six months ended 30 June 2016 HK$'000
Fair value gains/(losses) on investment properties	**226**	(952)
Foreign exchange gains	**34**	109
Losses on disposal of property, plant and equipment	**(147)**	(48)
Sundry losses	**(59)**	(404)
	54	(1,295)

21 FINANCE COSTS – NET

	Six months ended 30 June 2017 HK$'000	Six months ended 30 June 2016 HK$'000
Finance costs:		
– Interest expenses on borrowings	**1,488**	1,488
– Interest expenses on obligations under finance leases	**25**	11
	1,513	1,499
Finance income:		
– Interest income on short-term bank deposits	**(555)**	(350)
Finance costs – net	**958**	1,149

22 INCOME TAX EXPENSE/(CREDIT)

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Current income tax		
– provision for the period	**8,590**	941
– over-provision in respect of prior years	**(715)**	(1,188)
	7,875	(247)
Deferred income tax	**(105)**	(157)
	7,770	(404)

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 2017 (for the six months ended 30 June 2016: 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% (for the six months ended 30 June 2016: 25%) on the estimated assessable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

23 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	Six months ended	
	30 June 2017	30 June 2016
Earnings/(loss) attributable to owners of the Company (HK$'000)	**24,415**	(686)
Weighted average number of ordinary shares in issue (thousands)	**81,164,472**	80,743,439
Earnings/(loss) per share (HK cents per share)	**0.0301**	(0.0008)

The weighted average number of ordinary shares adopted in the calculation of basic earnings/(loss) per share for the six months ended 30 June 2017 and 30 June 2016 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.

23 EARNINGS/(LOSS) 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. For the six months ended 30 June 2017, there was no diluted potential ordinary share, diluted earnings per share equalled to basic earnings per share. For the six months ended 30 June 2016, there was no potential ordinary shares which were dilutive since their conversion into ordinary shares would result in a decrease in loss per share.

24 COMMITMENTS

(a) Operating leases commitments

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

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Not later than one year	**1,351**	1,940
Later than one year and not later than five years	**–**	204
	1,351	2,144

(b) Capital commitments

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Contracted but not provided for		
– network equipments	**3,681**	4,245

25 RELATED PARTY TRANSACTIONS

The Group is controlled by Evergrande, which owns indirectly approximately 54% of the Company's shares. Mount Yandang Investment Limited, a wholly-owned subsidiary of Tecent Holding Limited, owns approximately 20% of the shares and the remaining approximately 26% of the shares are widely held. 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 2017 and 2016, 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 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

Note: The key management personnel is a director of the Group's entities.

(b) Transactions with related parties

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Rental expenses:		
Mascotte Investments Limited	**660**	630

(c) Key management compensation

	Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Key management compensation:		
– Salaries and other benefits	**3,071**	2,875

25 RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balance with related parties

As at 30 June 2017 and 31 December 2016, the Group had the following significant balances with related parties:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
Due from related parties:		
– Evergrande Internet Financial Services (Shenzhen) Co., Ltd	**–**	988
– A key management personnel (i)	**3,142**	3,123
	3,142	4,111

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

FINANCIAL RESULTS AND BUSINESS REVIEW

The Group recorded a profit attributable to owners of the Company of approximately HK$24.4million for the six months ended 30 June 2017, as compared to recording a loss attributable to owners of the Company of approximately HK$0.7 million for the six months ended 30 June 2016. The Group turned into profit-making for the six months ended 30 June 2017 as compared to the six months ended 30 June 2016 mainly due to the following factors:

(i) a continuous fast and steady growth in the internet community services business segment, which contributed a segment profit of approximately HK$29.1 million for the six months ended 30 June 2017 as compared with a segment profit of approximately HK$2.2 million for the six months ended 30 June 2016;

(ii) the Group's effective and continuous control of cost of sales and the reversal of provision made have altogether led to improvement in the overall gross profit margin, which increased from 40% for the six months ended 30 June 2016 to 59% for the six months ended 30 June 2017; and

(iii) a gain of approximately HK$6.3 million in fair value changes of equity investments was recorded for the six months ended 30 June 2017, while a loss of approximately HK$3.0 million was recorded for the six months ended 30 June 2016.

The basic and diluted earnings per share were HK0.0301 cents for the six months ended 30 June 2017, as compared to the basic and diluted loss per share of HK0.0008 cents for the six months ended 30 June 2016.

Internet community services

During the six months ended 30 June 2017, the Group conducted its internet community services business in communities across China, and its turnover increased from approximately HK$8.0 million for the six months ended 30 June 2016 to approximately HK$56.4 million for the six months ended 30 June 2017, including revenue from internet home sector of approximately HK$48.1 million, revenue from smart community sector (fundamental sectors of internet community services) of approximately HK$8.2 million, and revenue from other sectors of approximately HK$0.1 million.

Cost of internet community services business represented mainly labour cost and depreciation for network equipment. Gross profit margin of such segment was approximately 72%. After deducting distribution cost and administrative expense of approximately HK$11.6 million, the segment recorded profit of approximately HK$29.1 million.

(I) Business Development

In the first half of 2017, the Group focused on the development of two core activities, being smart community and internet home, and recorded steady growth for all business.

I. THE DEVELOPMENT OF COMMUNITY ECOSPHERE TOOK SHAPE

The Group is a light-asset internet community service operator built with the concept of platform operation. Through exploration and testing, the Group's operational model took shape in the first half of 2017, being three progressive operational strategies with community scenes as the core:

1. targeted cultivation of community user base through platform development and in-depth operation;

2. in-depth exploration of the values of community scenes to provide community users with diversified, high-quality and cost-effective community services;

3. in respect of establishment of large volume of community scene services, consolidation of industry resources and making arrangements to build vertical chain with high volume by relying on the branding of the two major shareholders of the Company, being China Evergrande Group ("China Evergrande") (HK.3333) and Tencent Holdings Limited ("Tencent Holdings") (HK.0700).

Under such operational model, the Group focused on the development of smart community and internet home business in the first half of 2017. The Group's plan is that property owners can enjoy various services such as home decoration services and purchase of home products through the internet platform developed by the Group once they have taken possession of their properties, with the aim of building a whole community ecosphere covering the market following the property handover.

(i) Smart Community Business

1. Ready for expansion into new communities

The HengTen Mimi platform is a "one-stop" internet e-commerce service product developed by the Group to provide property owners with "online + offline" property services, smart hardware services, e-commerce services, urban services, electric commerce services and community interaction services in order to build smart communities. Through such platform, the Group aims to provide property owners with smart community services in order to effectively enhance the trust by property owners, to cultivate a large number of targeted users, and to provide cost-effective products and services in order to realise profit from the platform.

In the first half of 2017, the HengTen Mimi platform was upgraded to version 3.0, with fully optimised products and services and the property owner authentication rate at pilot communities increasing to 95%. Currently, the Group has analysed its experience obtained in 12 communities and successfully built a standard replicable product and operational model. On such basis, the preparation for expansion into 29 additional communities in four provinces and cities in the second round is ready.

The Group found that smart hardware can effectively increase user stickiness and cultivate targeted user base. As such, based on its existing property services functions, the HengTen Mimi platform integrated smart community systems such as smart parking cloud platform and smart access control system with the platform.

2. Three major advantages supporting business development

In addition to its outstanding model, expanded market, national policies and strong support from two major shareholders were also important factors contributing to the successful development of smart community business in the first half of the year and will also facilitate business development in the long run.

(1) Community O2O market is a blue ocean to be explored

On 11 July 2017, iResearch, a third party research institution, published 2017 China Local Life O2O Industry Research Report, which states that the size of local life O2O market amounted to RMB978 billion in 2017, approaching RMB1 trillion. As a crucial part of local life services, the community life O2O blue ocean market has yet to be explored.

(2) The Chinese government strongly facilitates the development of smart city

In July 2016, the General Office of the CPC Central Committee and the General Office of the State Council issued the Outline of National Informatization Development Strategy, which proposes the development of new smart city by level and by class. This is no doubt a good opportunity for the Group which is committed to developing smart community.

(3) Great advantage of relying on two major shareholders

The controlling shareholders of the Group are China Evergrande and Tencent Holdings. As a Fortune 500 enterprise, China Evergrande currently owns more than 700 projects in over 240 cities across China, with increasing number of property owners, and Tencent Holdings, as one of the largest integrated internet service providers in the PRC, also provides strong technical and human resource support to the Group.

(ii) Internet Home Business

1. Entering period of rapid growth with matured models

In the first half of the year, the O2O operational model of internet home business of the Group, being "online exhibition at shopping mall platform + offline actual scene experience" became more matured. The internet home business is a direct embodiment of the Group's in-depth exploration of the values of centralised acceptance of property delivery by property owners and planning for vertical chain with high volume.

As at the end of June 2017, the Group carried out internet home business at over 100 projects in 87 cities. The offline live sample room has solved the issue of lack of live experience at pure internet home platforms, and the online shopping mall platform has solved the issue of high offline operational cost, low effectiveness of offline traffic and weak offline marketing efforts, and has better fulfilled the needs of property owners for customised home experience with home products.

In addition to B-to-C business, the Group's internet home business is also committed to the expansion of B-to-B business. The Group is developing overall solutions for the design and supply of soft decoration for apartments and residential properties, and has developed over 10 packaged solutions.

2. Two major advantages supporting rapid business growth

The consolidation of high-quality resources in the home industry and successful capturing of the trends of the home industry represent two major advantages supporting the rapid growth of the internet home business.

(i) Consolidation of high-quality industry resources

With the support from China Evergrande and Tencent Holdings, being the controlling shareholders of the Company, the Group has deeply consolidated high-quality resources. Previously the Group partnered with 25 branded furniture and home appliance suppliers and established a "Home Alliance" and provides high-quality "online + offline" furniture purchase services at the communities served by the Group. In the first half of the year, members of the "Home Alliance" developed a number of customised product series for the Group, and the first batch of customised products comprises nearly 2,000 items under 13 brands. Moreover, the Group further expanded its product category to include soft home decoration, decoration engineering and kitchen products to fully meet the high-quality and deep living needs of property owners.

(ii) Successful capturing of the trends of the home industry

As the property market stabilised and went downwards, the home industry was embracing a cold winter of excessive production capacity. Only the best home enterprises and outstanding business operational models can win the room for future development. Traditionally the sale of home products was completed in shopping malls. However, high operation cost has become a pain spot for the industry, and great enterprises are all looking for new sale scenes. As the actual location carrying the home products, the centralised acceptance of property delivery by property owners has naturally become the most important sales scene, which in fact is a new trend in the home industry. The Group's O2O operational model, being "online exhibition at shopping mall platform + offline actual scene experience" can maximize the values of such sale scene.

(iii) Other Business

Other than the internet home business, after exploring the potential of community scenes, the Group also attempted to plan for community finance, internet home decoration and community tourism business, to consolidate industry resources and to explore feasible business models, in preparation for its further development of the after-sales market of the property market.

Investments

The segment turned a loss of approximately HK$0.7 million for the six months ended 30 June 2016 to a profit of approximately HK$6.6 million for the six months ended 30 June 2017. The profit for the six months ended 30 June 2017 was mainly attributable to a net unrealised gain from fair value change in held-for-trading investments in securities of approximately HK$6.3 million and dividend income generated from held-for-trading investments in securities and available-for-sale financial assets of approximately HK$0.1 million and HK$0.2 million, respectively.

Loan financing

During the six months ended 30 June 2017, no new loan was granted and therefore no interest income was generated for this segment (six months ended 30 June 2016: nil).

Property investment

During the six months ended 30 June 2017, no rental income was generated.

With the increase in fair value of investment properties as at 30 June 2017 as compared to 31 December 2016, a fair value gain of approximately HK$0.2 million was recognised during the six months ended 30 June 2017. The increase in fair value was mainly due to the slight increase in the market price of the investment properties. Also, with the decrease in the administrative cost for the building management service from approximately HK$1.4 million for the six months ended 30 June 2016 to approximately HK$0.8 million for the six months ended 30 June 2017, the segment recorded loss of approximately HK$0.6 million for the six months ended 30 June 2017, as compared with loss of approximately HK$1.8 million for the six months ended 30 June 2016.

Manufacture and sale of accessories

The segment's turnover decreased from approximately HK$49.9 million for the six months ended 30 June 2016 to approximately HK$36.2 million for the six months ended 30 June 2017, representing a decrease of approximately 27%. It was mainly due to a decrease in demand in photographic market. Also, one of our domestic appliance customers was shifting to new product lines and no longer placed any order for the old product line, which is the second major impact on turnover.

Due to the absence of relatively low margin of the above-mentioned orders from the domestic appliance customer, the gross profit margin of the segment increased from approximately 34.0% for the six months ended 30 June 2016 to 37.7% on average for the six months ended 30 June 2017. In addition, with the decrease in distribution costs and administrative expenses and the reversal of the provisions, the segment profit increased by approximately HK$1.0 million, from approximately HK$1.2 million for the six months ended 30 June 2016 to approximately HK$2.2 million for the six months ended 30 June 2017.

PROSPECTS

Internet community services

In the second half of the year, the Group plans to seek rapid expansion of business scale and fast profit growth with the standard, replicable product and operational model it has developed.

1. Continue to optimise smart community business and expand community size

In the second half of the year, the HengTen Mimi platform will upgrade both products and services. The Group plans to upgrade the property management system of HengTen Mimi to further optimise user experience. In addition, the Group will continue to improve its services. For example, for smart hardware, the Group is committed to continuous optimisation of smart community experience. For community e-commerce services, the Group plans to expand and focus on its services relating to community live scenes and strengthen refined operation in order to further establish its supply chain advantage and service ability in such area.

The Group commenced the second round of expansion into 29 new communities in August 2017. It plans to promote continuous expansion of its smart community business, and has commenced the expansion into non-China Evergrande communities.

2. Accelerate the development of internet home business to improve competitiveness in the industry

For internet home business, the Group has established a national operation and service system across China, and is ready for further consolidation in the home industry. For the scene of centralised acceptance of property delivery by property owners, being a leading community internet home operator in the PRC currently, the Group will continue to optimise and upgrade its online platform and offline experience scenes to improve customer experience and establish an operation team training institution, so as to quickly replicate its operational model of "online shopping mall + offline scene experience", expand market presence and accelerate the expansion of its presence in the internet home industry. In addition, the Group will cooperate with members of the "Home Alliance" to speed up the development of products customised for the Group to improve the Group's product and cost competitiveness for the internet home business.

3. In-depth exploration of the values of community scenes to develop more vertical business

In the future, the Group will continue to focus on community scenes and explore the values of community scenes. For example, for internet home decoration business, the Group plans to develop a standard, replicable "online + offline" internet home decoration operation model in the second half of the year and promote such model in view of the needs of business planning in the future.

In addition to the scene of centralised acceptance of property delivery by property owners, the Group found that the community travel scene, community financial service scene, community vehicle service scene, community life consumption scene and property marketing scene also have high business values. The Group intends to deeply explore the abovementioned community scenes in order to develop more vertical business with high value.

Manufacturing and sales of accessories

The Group expects that its manufacture and sales of photographic accessories will encounter sluggish market demand due to the keen competition from its competitors. In this regard, the Group will continuously control its costs, strengthen customer relationship, broaden customer base, develop products to suit customer needs in action camera, monitor its level of indebtedness and funding requirements. Overall speaking, the Group expects the performance of this segment will remain stable in the year ahead, but the gross profit margin will be eroding due to a fierce business environment. Moreover, the Group will closely monitor and capture any opportunity to improve segment's position, both financially and operationally.

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 2017, 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 30 June 2017, the Group maintained cash and bank balances of approximately HK$936.3 million (as at 31 December 2016: approximately HK$936.5 million). There was no material change in cash and bank balances.

Capital Resources – exercise of the bonus warrants during the six months ended 30 June 2017

The bonus warrants issued to the then shareholders of the Company on the basis of one warrant (the "Existing Warrants") for every five shares held on the record date, entitling the warrant holders to subscribe in cash for one new share at an initial subscription price of HK$0.1 per new share, at any time from 24 February 2015 to 23 February 2017 (both days inclusive) was announced on 24 December 2014 and completed on 24 February 2015. The subscription price was adjusted to HK$0.2 per new share upon the share consolidation of the Company becoming effective on 27 October 2015 (the "Share Consolidation"). During the six months ended 30 June 2017, 12,135,640 new shares had been issued and allotted upon exercise of HK$2,427,128 Existing Warrants (adjusted with Share Consolidation) with net proceeds of approximately HK$2.4 million, which have been used as general working capital of the Company. The subscription rights attaching to the Existing Warrants expired at 4:00 p.m. on 23 February 2017.

Borrowings and Gearing Ratio

As at 30 June 2017, the Group's net equity amounted to approximately HK$963.7 million (as at 31 December 2016: approximately HK$933.3 million). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings plus obligations under finance lease) over shareholders' funds was 6.38% (as at 31 December 2016: 6.54%).

As at 30 June 2017, the Group had no secured borrowings (as at 31 December 2016: nil).

CHARGE OF ASSETS

As at 30 June 2017, margin facilities of approximately HK$22.2 million (as at 31 December 2016: approximately HK$20.1 million) from one regulated securities broker were granted to the Group under which financial assets at fair value through profit or loss of approximately HK$57.5 million (as at 31 December 2016: approximately HK$51.2 million) were treated as collateral for the facilities granted.

COMMITMENT

As at 30 June 2017, the Group has capital commitment of approximately HK$3,681,000 mainly for purchase of network equipment in relation to the internet community services online platform (as at 31 December 2016: approximately HK$4,245,000).

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 2017 (as at 31 December 2016: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi ("RMB") during the six months ended 30 June 2017. The internet community services business is mainly carried out in RMB in China. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the six months ended 30 June 2017, 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.

INTERIM DIVIDEND

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

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

Save for the Existing Warrants, the subscription rights attaching to which expired at 4:00 p.m. on 23 February 2017, 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 2017.

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 and indirectly, subsisted during or at the end of the six months ended 30 June 2017.

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

As at 30 June 2017, none of the Directors, chief executives nor their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as required to be kept and recorded in the register maintained by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as adopted by the Company.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2017, 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 Group	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 Limited	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 Group.
(2) Water Lily Investment Limited is an indirect wholly-owned subsidiary of Tencent Holdings Limited.

Save as disclosed above, as at 30 June 2017, 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 2017, no option had been granted and there was no outstanding share option of the Company as at 30 June 2017 (as at 31 December 2016: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group employed approximately 387 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, mandatory provident fund and share option scheme. Total staff costs for the six months ended 30 June 2017, including directors' emoluments, amounted to approximately HK$28.0 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 2017.

The interim financial information of the Company for the six months ended 30 June 2017 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 2017.

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2017 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 2017, 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 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 2017.

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, 25 August 2017