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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of HengTen Networks Group Limited (the “**Company**”) announces the unaudited interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended	
		30 June 2020	30 June 2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
Revenue	2	113,280	164,126
Cost of sales	3	(49,390)	<u>(60,907)</u>
Gross profit		63,890	103,219
Selling and marketing costs	3	(34,938)	(29,344)
Administrative expenses	3	(27,430)	(26,225)
Net reversal/(provision) of impairment losses on financial assets		6	(3,182)
Other income	4	6,117	5,050
Other expenses	5	(916)	(2,704)
Other gains — net		<u>2,193</u>	<u>381</u>

		Six months ended	
		30 June 2020	30 June 2019
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
Operating profit		8,922	47,195
Finance costs	6	(1,654)	(1,922)
Finance income	6	<u>7,503</u>	<u>11,219</u>
Finance income — net	6	<u>5,849</u>	<u>9,297</u>
Profit before income tax		14,771	56,492
Income tax expenses	7	<u>(7,591)</u>	<u>(2,960)</u>
Profit for the period		<u><u>7,180</u></u>	<u><u>53,532</u></u>
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Changes in the fair value of debt instruments at fair value through other comprehensive income		(64)	28
Currency translation difference		<u>13,844</u>	<u>393</u>
Other comprehensive income for the period, net of tax		<u>13,780</u>	<u>421</u>
Total comprehensive income for the period		<u><u>20,960</u></u>	<u><u>53,953</u></u>
Profit for the period attributable to:			
Owners of the Company		7,180	53,594
Non-controlling interests		<u>—</u>	<u>(62)</u>
		<u><u>7,180</u></u>	<u><u>53,532</u></u>

		Six months ended	
		30 June 2020	30 June 2019
		(Unaudited)	(Unaudited)
<i>Notes</i>		<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income for the period attributable to:			
	Owners of the Company	20,960	54,015
	Non-controlling interests	<u>—</u>	<u>(62)</u>
		<u>20,960</u>	<u>53,953</u>
Earnings per share for profit attributable to the owners of the Company for the period: (expressed in RMB cents per share)			
	Basic earnings per share	<u>8</u> 0.0089	<u>0.0665</u>
	Diluted earnings per share	<u>8</u> 0.0089	<u>0.0655</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (Unaudited) <i>RMB'000</i>	31 December 2019 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		14,977	17,457
Right-of-use assets		20,469	16,364
Intangible assets		2,244	2,929
Lease receivables		2,235	3,411
Deferred tax assets		2,009	7,295
Financial assets at fair value through other comprehensive income		567	631
Other non-current assets	9	3,235	104
		45,736	48,191
Current assets			
Inventories		30,178	30,317
Other current assets	9	35,048	35,401
Trade and other receivables	10	106,384	107,284
Financial assets at fair value through profit or loss		11,046	3,311
Cash and cash equivalents		1,090,280	1,313,301
		1,272,936	1,489,614
Total assets		1,318,672	1,537,805

		30 June	31 December
		2020	2019
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	<i>11</i>	150,172	150,172
Share premium	<i>11</i>	4,454,940	4,454,940
Other reserves		97,805	80,890
Accumulated losses		<u>(3,540,406)</u>	<u>(3,544,451)</u>
Total equity		<u>1,162,511</u>	<u>1,141,551</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		<u>10,768</u>	<u>6,654</u>
		<u>10,768</u>	<u>6,654</u>
Current liabilities			
Contract liabilities		6,973	18,143
Lease liabilities		12,700	13,471
Borrowings		27,273	53,571
Trade payables	<i>12</i>	12,453	15,554
Other payables	<i>13</i>	84,550	284,229
Current income tax liabilities		<u>1,444</u>	<u>4,632</u>
		<u>145,393</u>	<u>389,600</u>
Total liabilities		<u>156,161</u>	<u>396,254</u>
Total equity and liabilities		<u>1,318,672</u>	<u>1,537,805</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 (“Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The Interim Financial Information does not include all the notes of the type normally included in an annual financial report. Accordingly, the Interim Financial Information is to be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), and any public announcements made by the Group during the interim reporting period.

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

(a) New and amended standards adopted by the Group

The following amendments to standards are mandatory for the Group’s financial year beginning on 1 January 2020 for the Group:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material
Amendments to HKFRS 39, HKFRS 7 and HKFRS 9	Hedge accounting

The adoption of the above new and amended standards did not have any significant impact on the Group’s accounting policies and did not require retrospective adjustments.

(b) New and amendments to existing standards have been issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group

		Effective for accounting periods beginning on or after
Amendment to HKFRS 16	Leases — COVID-19 related rent concessions	1 June 2020
Amendments to HKAS 1	Presentation of financial statements' on classification of liabilities	1 January 2022
Amendments to HKFRS 3	Business combinations	1 January 2022
Amendments to HKAS 16	Property, plant and equipment	1 January 2022
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets	1 January 2022
Annual improvements to HKFRS 1	First-time adoption of IFRS	1 January 2022
Annual improvements to HKFRS 9	Financial instruments	1 January 2022
HKFRS 17	Insurance contract	1 January 2023
HKFRS 10 and HKAS 28 (amendment)	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.

2 SEGMENT INFORMATION

(a) Description of segments and principal activities

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.

In the second half year of 2019, the property investment and other investment segment disposed of its investment properties which were the most significant segmental assets. As a result, the property investment and other investment business became insignificant and CODM considered it unnecessary to disclose the property investment and other investment business as an individual segment during six months ended 30 June 2020.

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

(b) Segment profit/(loss)

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2020 are as follows:

	Internet community and related businesses RMB'000	Manufacture and sales of accessories RMB'000	Consolidated RMB'000
Revenue	90,532	22,748	113,280
Timing of revenue recognition			
At a point in time	11,574	22,748	34,322
Over time	78,958	—	78,958
	<u>90,532</u>	<u>22,748</u>	<u>113,280</u>
Segment profit/(loss)	<u>20,298</u>	<u>(1,457)</u>	18,841
Unallocated corporate expenses			(3,823)
Unallocated other income			29
Unallocated other losses			(841)
Unallocated finance income — net			<u>565</u>
Profit before income tax			<u>14,771</u>
Depreciation	8,385	771	9,156
Amortisation	<u>670</u>	<u>—</u>	<u>670</u>

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

	Internet community and related businesses <i>RMB'000</i>	Property investment and other investment <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue	136,069	—	28,057	164,126
Timing of revenue recognition				
At a point in time	26,186	—	28,057	54,243
Over time	109,883	—	—	109,883
Dividend income from financial assets at FVOCI (<i>Note 4</i>)	—	23	—	23
	136,069	23	28,057	164,149
Segment profit/(loss)	55,149	(568)	(926)	53,655
Unallocated corporate expenses				(2,706)
Unallocated finance income — net				5,543
Profit before income tax				56,492
Depreciation	10,297	—	801	11,098
Amortisation	2,268	—	—	2,268

(c) **Segment assets and liabilities**

Segment assets and liabilities as at 30 June 2020 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS			
Segment assets	<u>171,370</u>	<u>17,028</u>	188,398
Unallocated other receivables and prepayments			25,024
Unallocated right-of-use assets			1,348
Financial assets at FVOCI			567
Financial assets at FVPL			11,046
Deferred tax assets			2,009
Cash and cash equivalents			<u>1,090,280</u>
Consolidated total assets			<u>1,318,672</u>
LIABILITIES			
Segment liabilities	<u>114,979</u>	<u>8,524</u>	123,503
Unallocated other payables			2,563
Unallocated borrowings			27,273
Unallocated lease liabilities			1,378
Current income tax liabilities			<u>1,444</u>
Consolidated total liabilities			<u>156,161</u>

Segment assets and liabilities as at 31 December 2019 are as follows:

	Internet community and related businesses <i>RMB'000</i>	Manufacture and sales of accessories <i>RMB'000</i>	Consolidated <i>RMB'000</i>
ASSETS			
Segment assets	<u>159,564</u>	<u>18,117</u>	177,681
Unallocated other receivables and prepayments			33,615
Unallocated right-of-use assets			1,971
Financial assets at FVOCI			631
Financial assets at FVPL			3,311
Deferred tax assets			7,295
Cash and cash equivalents			<u>1,313,301</u>
Consolidated total assets			<u>1,537,805</u>
LIABILITIES			
Segment liabilities	<u>321,066</u>	<u>10,199</u>	331,265
Unallocated other payables			4,796
Unallocated borrowings			53,571
Unallocated lease liabilities			1,990
Current income tax liabilities			<u>4,632</u>
Consolidated total liabilities			<u>396,254</u>

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

- all assets are allocated to reportable and operating segments, other than certain other receivables and prepayments, certain right-of-use assets, financial assets at FVOCI, financial assets at FVPL, 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, certain lease liabilities and current income tax liabilities.

3 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 2020	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	42,376	47,529
Cost of inventories sold	23,439	39,809
Depreciation and amortisation	10,448	13,366
Software usage fees	8,524	—
Advertising and promotion costs	6,958	1,904
Rental expense	2,340	2,395
Travelling expense	1,604	1,992
Legal and professional fees	1,343	1,429
Write-down/(reversal of write-down) of inventories	543	(229)
Reversal of provisions and other payables	—	(1,042)
	<u> </u>	<u> </u>

4 OTHER INCOME

	Six months ended	
	30 June 2020	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Income from network equipment usage and maintenance service	3,664	3,664
Subleasing income	1,089	1,050
Dividend income from financial assets at FVOCI	29	23
Sundry income	1,335	313
	<u> </u>	<u> </u>
	<u>6,117</u>	<u>5,050</u>

5 OTHER EXPENSES

	Six months ended	
	30 June 2020	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Subleasing expenses	916	989
Cost of network equipment usage and maintenance service	—	1,715
	<u> </u>	<u> </u>
	<u>916</u>	<u>2,704</u>

6 FINANCE INCOME — NET

	Six months ended	
	30 June 2020	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance costs:		
— Interest expenses on borrowings	(1,041)	(1,294)
— Interest expenses on lease liabilities	<u>(613)</u>	<u>(628)</u>
	<u>(1,654)</u>	<u>(1,922)</u>
Finance income:		
— Interest income on deposits	<u>7,503</u>	<u>11,219</u>
Finance income — net	<u><u>5,849</u></u>	<u><u>9,297</u></u>

7 INCOME TAX EXPENSES

	Six months ended	
	30 June 2020	30 June 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
— Provision for the period	4,610	10,318
— Adjustments for current tax of prior years	<u>(2,305)</u>	<u>(2,810)</u>
	2,305	7,508
Deferred income tax	<u>5,286</u>	<u>(4,548)</u>
	<u><u>7,591</u></u>	<u><u>2,960</u></u>

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 2020 and 2019.

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25%, except for a subsidiary of the Group which is entitled to preferential tax rate applicable to advanced and new technology enterprises of 15% (for the six months ended 30 June 2019: 15%) on the estimated assessable profit for the period, based on the existing legislation, interpretations and practices in respect thereof.

8 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 period.

	Six months ended	
	30 June 2020	30 June 2019
Profit attributable to owners of the Company (RMB'000)	<u>7,180</u>	<u>53,594</u>
Weighted average number of ordinary shares in issue (thousands)	<u>80,571,604</u>	<u>80,571,604</u>
Basic earnings per share (RMB cents per share)	<u><u>0.0089</u></u>	<u><u>0.0665</u></u>

The weighted average number of ordinary shares adopted in the calculation of basic earnings per share for the six months ended 30 June 2020 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 period) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Six months ended	
	30 June 2020	30 June 2019
Profit attributable to owners of the Company (RMB'000)	<u>7,180</u>	<u>53,594</u>
Weighted average number of ordinary shares in issue (thousands)	<u>80,571,604</u>	80,571,604
Adjustment for share warrants (thousands)	<u>—</u>	<u>1,218,106</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>80,571,604</u>	<u>81,789,710</u>
Diluted earnings per share (RMB cents per share)	<u><u>0.0089</u></u>	<u><u>0.0655</u></u>

The computation of diluted earnings per share does not assume the exercise of the Company's share warrants since the exercise price is higher than the average market price of the shares during the six months ended 30 June 2020.

9 OTHER CURRENT AND NON-CURRENT ASSETS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Prepayments	32,590	32,393
Deductible input value-added tax	<u>5,693</u>	<u>3,112</u>
	38,283	35,505
Less non-current portion: prepayments (a)	<u>(3,235)</u>	<u>(104)</u>
Current portion	<u>35,048</u>	<u>35,401</u>

(a) Non-current portion of prepayments represents the prepayments for the decoration of right-of-use assets.

10 TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables — gross		
— Third parties	45,409	60,264
Less: allowance for doubtful debts (b)	<u>(4,316)</u>	<u>(5,522)</u>
Trade receivables — net (a)	<u>41,093</u>	<u>54,742</u>
Other receivables due from		
— Related parties	13,354	6,806
— Other third parties	53,137	13,915
— Disposal of subsidiaries	<u>—</u>	<u>31,821</u>
Other receivables — gross	66,491	52,542
Less: allowance for doubtful debts	<u>(1,200)</u>	<u>—</u>
Other receivables — net	<u>65,291</u>	<u>52,542</u>
	<u>106,384</u>	<u>107,284</u>

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within 60 days	35,453	47,018
61 days to 180 days	3,459	1,363
Over 181 days	2,181	6,361
	<u>41,093</u>	<u>54,742</u>

- (b) The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis, the loss allowance as at 30 June 2020 was determined and disclosed as below:

	Current RMB'000	Up to 60 days past due RMB'000	Up to 120 days past due RMB'000	Up to 180 days past due RMB'000	More than 180 days past due RMB'000	Total RMB'000
30 June 2020						
Expected loss rate	—	1.8%	13.2%	27.2%	82.6%	
Gross carrying amount	33,108	5,491	897	1,414	4,499	45,409
Loss allowance	—	99	118	385	3,714	4,316
	Current RMB'000	Up to 60 days past due RMB'000	Up to 120 days past due RMB'000	Up to 180 days past due RMB'000	More than 180 days past due RMB'000	Total RMB'000
31 December 2019						
Expected loss rate	—	0.1%	2.7%	21.3%	51.0%	
Gross carrying amount	45,466	2,606	520	1,502	10,170	60,264
Loss allowance	—	3	14	320	5,185	5,522

11 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>
Six months ended 30 June 2019			
Balance at 1 January 2019 and 30 June 2019	<u>74,611,669,087</u>	<u>150,172</u>	<u>4,454,940</u>
Six months ended 30 June 2020			
Balance at 1 January 2020 and 30 June 2020	<u>74,611,669,087</u>	<u>150,172</u>	<u>4,454,940</u>

12 TRADE PAYABLES

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

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Within 60 days	10,071	12,472
61 days to 150 days	1,544	1,993
Over 151 days	<u>838</u>	<u>1,089</u>
	<u>12,453</u>	<u>15,554</u>

The average credit period on purchases of goods is 90 days.

13 OTHER PAYABLES

	30 June 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
Other payables (a)	73,878	260,439
Accrued expenses	7,374	19,993
Provisions for other taxes	2,752	3,252
Amounts due to related parties	<u>546</u>	<u>545</u>
	<u>84,550</u>	<u>284,229</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30 June 2020, the Group, as an integrated internet service operator developed with the vision of platform operation, took serving users as its core work and empowering the industry as its direction by fully capitalising on the resource advantages of its two largest shareholders, China Evergrande Group (“**China Evergrande**”) (3333.HK) and Tencent Holdings Limited (“**Tencent Holdings**”) (0700.HK). The long-term vision of the Group has driven the continuous optimisation of its business structure, and the Group has actively explored the optimisation and upgrading of its existing businesses. The Group has also coordinated and promoted the synergetic development of its internet home furnishing business and internet materials business.

FINANCIAL PERFORMANCE SUMMARY

The Group recorded a profit attributable to owners of the Company of approximately RMB7.2 million for the six months ended 30 June 2020, which decreased by approximately RMB46.4 million as compared to a profit attributable to owners of the Company of approximately RMB53.6 million for the six months ended 30 June 2019. The decrease in the profit attributable to owners of the Company for the six months ended 30 June 2020 was mainly due to the novel coronavirus (“**COVID-19**”) pandemic, resulting in corresponding declined business volume and disrupted business operations, which in turn contributed to a segment profit of approximately RMB20.3 million for the six months ended 30 June 2020 as compared to a segment profit of approximately RMB55.1 million for the six months ended 30 June 2019 for the internet community and related businesses.

The basic and diluted earnings per share were RMB0.0089 cents and RMB0.0089 cents for the six months ended 30 June 2020 respectively as compared to the basic and diluted earnings per share of RMB0.0665 cents and RMB0.0655 cents for the six months ended 30 June 2019.

INTERNET COMMUNITY AND RELATED SERVICES

During the six months ended 30 June 2020, the Group conducted its internet community and related services business in the communities across China, and its turnover decreased from approximately RMB136.1 million for the six months ended 30 June 2019 to approximately RMB90.5 million for the six months ended 30 June 2020, comprising revenue from internet home furnishing sector of approximately RMB76.0 million, revenue from internet materials business sector of approximately RMB12.8 million, and revenue from other sectors of approximately RMB1.7 million. The costs of internet community and related services business are mainly labour costs, depreciation and amortization costs and material procurement costs. Gross profit margin of such segment was approximately 62.2%. After deducting selling and marketing costs, administrative and other expenses of approximately RMB36.0 million, the segment recorded a profit of approximately RMB20.3 million.

I. BUSINESS REVIEW

1. Internet Home Furnishing Business

In the first half of 2020, while the Group was improving the functions and services of its online shopping mall, it has also set up more than 260 offline experience sample rooms in the community. With the support of the comprehensive offline marketing system, the Group continuously realised scale development through standardised services. As at 30 June 2020, the Group was operating internet home furnishing business for over 450 projects in more than 200 cities and provided furnishing design and sales proposals to more than 220,000 property owners in the community.

The Group was able to meet customers' consumption needs for one-stop home furnishing with its internet home furnishing business which covers categories including customised furniture, complementary household electric appliances, balcony textile art products and soft decorations, decoration engineering and kitchen supplies. In the first half of 2020, under the increased spending appetite, the Group continued to deepen its cooperation with 25 leading brands in the "Home Furnishing Alliance" to ensure the satisfaction of consumers' demands for high quality products and services. In the meantime, the Group continued to optimize the partner-rating system, conduct comprehensive appraisals upon the products and services provided by the suppliers and persevered in making selections based on qualifications after strict assessment.

The Group also strived to improve the customers' experience in home-marketing, logistics and distribution, installation and after-sales services and to build a standardised service process. At the same time, the Group consolidated typical user profiles from multiple dimensions such as age, education, family background and consumption budget to improve the matching between the user's needs and products and services provided. The Group acquired valuable data through accurate user profiling and precise product style preferences, and launched products under its own brand, serving the dual purposes of reducing product costs and helping small and medium-sized production companies, which underpinned the long-term advantages of the Group's supply system. In addition, by embracing different consumption scenarios of users, the Group effectively understood users' consumption demands and continued to optimise installment payment services for home furnishing consumption.

In the first half of 2020, the economy of Mainland China was adversely affected by the COVID-19 pandemic. Nevertheless, the Group still made proactive strategic adjustments. The Group increased efforts in the research and development of its own products, and offered comprehensive support in terms of product mix, product quality, distribution and installation, after-sales service and other aspects, so as to

assist the sales and operation of its partners. In view of the preliminary results achieved by its strategic cooperation with brands such as Kujiale and 3vjia, the Group further enhanced the online experience of its e-commerce channels with respect to VR model rooms and high-quality design cases, and also opened up marketing links for design effects, transactions and orders.

2. Internet Materials Business

The internet materials business of the Group took full advantage of the mature supply chain management system in procurement and bidding, product standards, distribution and supply, quality management and control, cooperation and evaluation, and services of high-quality decorations to effectively consolidate quality resources in the household building materials industry, endeavouring to offer leading integrated household service in the industry that covers building materials, furniture, customisation, home appliances and all categories of soft decorations. The Group has achieved efficient synergy in the whole value chain encompassing product design, production, procurement, sales and construction, resolved common issues in the householding building materials industry such as lack of transparency, low communication efficiency and high costs, and provided quality product and services to consumers, small and medium-sized properties and decoration companies. Leveraging on the extensive volume of actual households and product inventories, the Group provided design proposals for the entire house as well as standardised construction services to enhance the consumption experience of users. At the same time, the Group joined hands with local public welfare and government agencies to raise awareness to the children's growth and care for migrant workers, which effectively enhanced its brand reputation. In addition, in the first half of 2020, the Group continuously provided services for contracted quality city operators in the country, including marketing, warehousing, distribution, installation and after-sales services.

In terms of prices, the Group significantly lowered its procurement cost by leveraging its strengths of economies of scale in centralised procurement and adhering to its “high quality and reasonable price” principle and enjoyed obvious advantages in prices. In terms of categories, the Group prudently selected top household building material brands at the initial stage, and selected quality brands from a home aesthetics angle. At the same time, by making full use of its advantages in resources along the industrial chain and strict quality management system, the Group continued to improve product categories and specifications. Supported by its product selection team, the Group has gradually introduced products under its own brand, covering furniture, bathroom, ceramic tiles, wood flooring and other categories, in order to meet the diverse needs of users with respect to product selection.

In terms of product quality, the Group built a sound quality management system that, on the basis of meeting current national and industry standards, consistently satisfied users' demands for higher standards and achieved dynamic development of the quality management system. In terms of distribution and delivery, the Group built five major stocking and warehousing centres. In addition, the four offline flagship stores are all equipped with small storage systems to meet the needs of users for immediate pickup.

In terms of services, the Group showcased overall decoration designs and construction plans to users to meet their needs for personalised decoration plans, and arranged professional teams to provide on-site measuring scales, plan design, product delivery, on-site construction, installation and other services to meet the needs of users for individualised design, precise matching of floor plans, consistent style throughout the house and other requirements.

In terms of professional teams, the management team of the Group has worked in the home decoration and furniture retail industry for many years with extensive industry resources. At the same time, the professional design teams established by the Group comprised high calibre members from various fields including home decoration design, custom design, and soft decoration design, and is responsible for the formulation and production of standardised design specifications and requirements. In addition, the Group has been preparing to build local professional construction teams in order to meet the needs of users for integrated and packaged services and provide users with high-standard construction services.

3. Smart Community Business

In the first half of 2020, the Group did not carry out such business.

Loan financing

During the six months ended 30 June 2020, no new loan was granted and therefore no interest income was generated for this segment (six months ended 30 June 2019: nil).

Manufacture and sale of accessories

The segment's turnover decreased from approximately RMB28.1 million for the six months ended 30 June 2019 to approximately RMB22.7 million for the six months ended 30 June 2020, representing a decrease of approximately 19.2%.

The gross profit margin recorded approximately 33.3% for the six months ended 30 June 2020, with a slight increase of approximately 0.8 percentage point on average as compared to the gross profit margin for the six months ended 30 June 2019.

II. BUSINESS OUTLOOK

Looking forward, the Group will continue to adapt to new trends, adopt new technologies and explore new channels, so as to realise the transformation and upgrading of online marketing channels, and improve the experience integrating marketing and delivery which boasts “what you see is what you get” for the entire house. The Group will also effectively address issues arising during industry transformation and development, cultivate the core competitiveness for the future, enhance the momentum and resilience for business development, and promote the continuous and positive business development of the Group.

1. Internet Home Furnishing Business

In terms of internet home furnishing business, the Group will build a more effective marketing system from the perspectives of marketing strategy planning, marketing team building, sales promotion policy formulation, channel building and establishment of price system. In addition, the Group will further expand into more categories and strive to provide products covering all categories in the field of home furnishing. In the future, the Group plans to continuously expand the number of communities and user base it serves through regulated management, standardised services and localised marketing.

In order to further expand the coverage of customised, semi-finished products and other categories in sales orders, the Group will increase investment and utilise its accumulated precise customer traffic to promote in-depth cooperation with production companies with the basis of Industry 4.0, and research and develop a “design-production” integrated industry standardised platform to further consolidate design and orders with production end and delivery end, so as to present users with a real “what you see is what you get” experience offering personalised programs and integrated delivery, thereby achieving a higher level of development of the internet home furnishing business.

2. Internet Materials Business

In terms of internet materials business, the Group will continue to enhance online/offline customer flow as well as increasing customer flow access points. The Group will also continuously strengthen content and brand output to achieve precision reach and effective conversion of the target group. In response to users’ needs for whole house solutions, the Group will continue to expand its product categories, enrich the categories and SKUs of the products under its own brand, and carry out high-frequency updates and iterations of the products under its own brand, classify different categories into the same design and marketing system to form a holistic space solution for entire house. At the same time, the Group will continue to provide stable services for city operators across the country, leverage on China Evergrande’s advantages in supply chain system and centralised procurement scale, in order to provide better 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 six months ended 30 June 2020, 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 2020, the Group maintained cash and bank balances of approximately RMB1,090.3 million (as at 31 December 2019: approximately RMB1,313.3 million). The decrease in cash and bank balances was mainly attributable to the operations of internet community and related business.

Borrowings and Gearing Ratio

As at 30 June 2020, the Group's net equity amounted to approximately RMB1,162.5 million (as at 31 December 2019: approximately RMB1,141.6 million) with total assets amounting to approximately RMB1,318.7 million (as at 31 December 2019: approximately RMB1,537.8 million). Net current assets were approximately RMB1,127.5 million (as at 31 December 2019: approximately RMB1,100.0 million) and the current ratio was 8.8 times (as at 31 December 2019: 3.8 times). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings plus lease liabilities) over shareholders' funds was 4.4% (as at 31 December 2019: 6.5%).

CHARGE OF ASSETS

As at 30 June 2020, the Group did not have any charges on assets (as at 31 December 2019: nil).

COMMITMENT

As at 30 June 2020, the Group did not have any capital commitment (as at 31 December 2019: nil).

CONTINGENT LIABILITIES

The Group did not provide corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 30 June 2020 (as at 31 December 2019: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi (“RMB”) during the six months ended 30 June 2020. The internet community service business is mainly carried out in RMB in Mainland China. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the six months ended 30 June 2020, 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 the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities during the six months ended 30 June 2020.

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 2020, no option had been granted and there was no outstanding share option of the Company as at 30 June 2020 (as at 31 December 2019: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, the Group employed approximately 365 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 2020, including directors’ emoluments, amounted to approximately RMB42.4 million.

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

REVIEW OF INTERIM RESULTS

The interim financial information of the Company for the six months ended 30 June 2020 has been reviewed by the Audit Committee. The Audit Committee has reviewed with the management the accounting policies 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 2020.

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 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.

CORPORATE GOVERNANCE

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the six months ended 30 June 2020 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 2020, 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.
- Code provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting. Mr. Xu Wen, the chairman of the Board, was unable to attend the annual general meeting held on 15 June 2020 due to immigration restrictions under the COVID-19 pandemic. Mr. Chau Shing Yim, David (an independent non-executive director, the chairman of the Audit Committee and the chairman of the Remuneration Committee) attended the 2020 annual general meeting and served as the chairman of the meeting. The Board believes that Mr. Chau Shing Yim, David has sufficient ability and knowledge to answer questions at the 2020 annual general meeting. Therefore, the good communication established between the Company and the shareholders is not affected.

COMPLIANCE WITH THE MODEL CODE

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. The Company, having made specific and cautious enquiries, confirmed that all Directors had complied with the Model Code for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE WEBSITE

This interim 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 interim report containing all information required by the Listing Rules will be dispatched to the Shareholders and will be available on websites of the Stock Exchange and the Company in due course.

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.

APPRECIATION

The Board would like to express its sincere gratitude to our shareholders, investors, employees and business partners for their continuous support.

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

Hong Kong, 24 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Xu Wen, Mr. Huang Xiangui and Mr. Wan Chao; 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.