



恒騰網絡集團
hengten networks group

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

(a company incorporated in Bermuda with limited liability)

(Stock Code: 136)

(Stock Code of Warrants: 1493)

INTERIM REPORT
2016



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ms. Zhang Xiaohua (*Chairlady*)
(Appointed on 24 June 2016)
Mr. Peng Jianjun (*ex-Chairman*)
(Resigned on 24 June 2016)
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
(Appointed on 23 September 2016)

Audit Committee

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

Remuneration Committee

Mr. Chau Shing Yim, David (*Chairman*)
Ms. Zhang Xiaohua (Appointed on 24 June 2016)
Mr. Peng Jianjun (Resigned on 24 June 2016)
Mr. Nie Zhixin

Nomination Committee

Ms. Zhang Xiaohua (*Chairlady*)
(Appointed on 24 June 2016)
Mr. Peng Jianjun (*ex-Chairman*)
(Resigned on 24 June 2016)
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

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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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	27,135	3,804
Land use rights		558	736
Investment properties	7	18,720	19,992
Available-for-sale financial assets		763	765
Prepayments	10	16,423	–
		63,599	25,297
Current assets			
Inventories	8	1,956	2,979
Trade receivables	9	18,248	19,072
Other receivables and prepayments	10	15,835	4,802
Financial assets at fair value through profit or loss	11	47,040	50,020
Cash and cash equivalents	12	790,899	764,136
		873,978	841,009
Total assets		937,577	866,306
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	13	147,181	147,179
Share premium	13	5,193,929	5,193,669
Other reserves	14	19,626	20,329
Accumulated losses		(4,634,507)	(4,633,821)
		726,229	727,356
Non-controlling interests		4,664	4,627
Total equity		730,893	731,983

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	NOTE	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	16	60,000	60,000
Obligations under finance leases		250	300
Deferred tax liabilities		4,040	4,266
		64,290	64,566
Current liabilities			
Trade payables	17	6,982	6,124
Advances from customers and other payables	18	126,619	54,310
Current income tax liabilities		8,694	9,113
Obligations under finance leases		99	210
		142,394	69,757
Total liabilities		206,684	134,323
Total equity and liabilities		937,577	866,306

The notes on pages 10 to 29 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTE	Six months ended	
		30 June 2016 (Unaudited) HK\$'000	30 September 2015 (Unaudited) HK\$'000
Revenue	6	60,246	73,201
Cost of sales		(36,304)	(54,534)
Gross profit		23,942	18,667
Selling and marketing costs		(2,702)	(2,280)
Administrative expenses		(17,598)	(26,620)
Changes in fair value of financial assets at fair value through profit or loss	11	(2,980)	(24,078)
Other income	20	804	800
Other (losses)/gains-net	21	(1,295)	2,516
Equity-settled share-based payments	15	–	(184,808)
Operating profit/(loss)		171	(215,803)
Finance costs	22	(1,499)	(2,111)
Finance income	22	350	43
Finance costs-net	22	(1,149)	(2,068)
Loss before income tax		(978)	(217,871)
Income tax credit	23	404	291
Loss for the period		(574)	(217,580)
Other comprehensive income			
<i>Item that may be reclassified to profit or loss</i>			
Net loss on fair value changes of available-for-sale financial assets		(2)	(90)
Exchange differences on translating foreign operations		(777)	478
Other comprehensive income for the period		(779)	388
Total comprehensive income for the period		(1,353)	(217,192)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

		Six months ended	
		30 June 2016	30 September 2015
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	NOTE		
Loss for the period attributable to:			
– owners of the Company		(686)	(217,578)
– non-controlling interests		112	(2)
		(574)	(217,580)
Total comprehensive income for the period attributable to:			
– owners of the Company		(1,390)	(216,996)
– non-controlling interests		37	(196)
		(1,353)	(217,192)
Loss per share attributable to owners of the Company for the period (expressed in HK cents per share)			
– Basic and diluted loss per share	24	(0.0008)	(Adjusted) (0.2738)

The notes on pages 10 to 29 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					Non-controlling interests	Total (deficit)/ equity
	Share capital	Share premium	Other reserves	Accumulated losses	Total		
HK\$'000 (Note 13)	HK\$'000 (Note 13)	HK\$'000 (Note 14)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 April 2015	312,689	4,133,356	442,739	(4,921,496)	(32,712)	5,028	(27,684)
Comprehensive income							
- Loss for the period	-	-	-	(217,578)	(217,578)	(2)	(217,580)
- Other comprehensive income	-	-	582	-	582	(194)	388
Total comprehensive income	-	-	582	(217,578)	(216,996)	(196)	(217,192)
Transactions with owners							
- Conversion of convertible bonds	43,750	390,371	(423,289)	-	10,832	-	10,832
- Issue of new shares upon exercise of bonus warrants	10,983	98,633	216	-	109,832	-	109,832
- Transaction costs attributable to issue of new shares	-	(3)	-	-	(3)	-	(3)
- Recognition of equity-settled share-based payments (Note 15)	-	-	184,808	-	184,808	-	184,808
- Transfer to accumulated losses upon cancellation of share options (Note 15)	-	-	(184,808)	184,808	-	-	-
Total transactions with owners	54,733	489,001	(423,073)	184,808	305,469	-	305,469
Balance at 30 September 2015	367,422	4,622,357	20,248	(4,954,266)	55,761	4,832	60,593

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Cont'd)

	Unaudited						
	Attributable to owners of the Company						Total equity HK\$'000
	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	
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

The notes on pages 10 to 29 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTE	Six months ended	
		30 June 2016 (Unaudited) HK\$'000	30 September 2015 (Unaudited) HK\$'000
Cash flows of operating activities			
Net cash generated from/(used in) operations		71,089	(94,052)
Interest paid		(1,499)	(8,616)
Income tax paid		(172)	(1,358)
Net cash generated from/(used in) operating activities		69,418	(104,026)
Cash flows of investing activities			
Purchase of property, plant and equipment		(43,146)	(108)
Proceeds from disposal of property, plant and equipment		10	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	20,000
Dividend received from available-for-sale financial assets		35	–
Interest received from saving deposits		350	294
Net cash (used in)/generated from investing activities		(42,751)	20,186
Cash flows of financing activities			
Transactions costs attributable to issue of new shares		–	(5,872)
Proceeds from exercise of bonus warrants		263	109,832
Repayment of obligations under finance leases		(161)	(156)
Net cash generated from financing activities		102	103,804
Net increase in cash and cash equivalents		26,769	19,964
Cash and cash equivalents at beginning of period		764,136	45,843
Exchange (loss)/gains on cash and cash equivalents		(6)	80
Cash and cash equivalents at end of period	12	790,899	65,887

The notes on pages 10 to 29 are an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

HengTen Networks Group Limited (the “Company”) was incorporated in Bermuda with limited liability and is engaged in investment holding. The Company and its subsidiaries (the “Group”) are principally engaged in internet community services, investment and trading of securities, provision of finance, property investment and manufacture and sales of accessories for photographic and electrical products. 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 (formerly known as “Evergrande Real Estate Group Limited”).

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. These condensed consolidated interim financial information has been approved for issue by the board of directors (the “Board”, or “Directors”) of the Company on 23 August 2016.

These condensed consolidated interim financial information has not been audited.

Key event

In April 2016, a subsidiary of the Company (深圳市恒騰網絡服務有限公司, “HengTen WFOE”) entered into a series of contractual agreements (the “Contractual Arrangements”) with a limited liability company (深圳市恒騰網絡有限公司, “HengTen OPCO”) and the shareholders of HengTen OPCO. Pursuant to the Contractual Arrangements, HengTen WFOE acquired effective control over HengTen OPCO and became entitled to variable returns from its involvement in HengTen OPCO.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 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 financial statements for the nine months ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

Pursuant to a resolution of the Board dated 22 December 2015, the financial year end date of the Company has been changed from 31 March to 31 December to align with the financial year end date of its controlling shareholder, China Evergrande Group, and thereby facilitate the preparation of the consolidated financial statements of China Evergrande Group. Accordingly, the current financial period covers a six-month period from 1 January 2016 to 30 June 2016 and the comparative financial period covers a six-month period from 1 April 2015 to 30 September 2015. The comparative figures for the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes thereto are not directly comparable. Certain comparative figures have been reclassified to conform with the current period presentation.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION *(Continued)*

In the preparation of the condensed consolidated interim financial information, the Directors have given due and careful consideration to the future liquidity of the Group by continuous monitoring forecast and actual cash flows, in light of the Group's total equity of approximately HK\$730,893,000 as at 30 June 2016 and its incurred loss of approximately HK\$686,000 attributable to owners of the Company for the six months ended 30 June 2016. In the opinion of the Directors, the condensed consolidated interim financial information has been prepared on a going concern basis as the Group obtained cash of approximately HK\$791,622,000 from subscription of new shares and exercise of bonus warrants in 2015 and sustainable financial support from the controlling shareholder of the Company. The Directors believe that the Group has sufficient funds to finance its current working capital requirements and financial obligations in the next twelve months from the end of the reporting period.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the financial information for the nine months ended 31 December 2015, as described in those financial statements.

- (a) New standards, amendments to standards and interpretations adopted by the Group as at 1 January 2016.

The following new standards, amendments to standards and interpretations are mandatory for the Group's financial year beginning 1 January 2016. The adoption of these new standards, amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

HKFRS 14	Regulatory deferral accounts
HKFRS 11 (Amendment)	Accounting for acquisitions of interests in joint operations
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment entities in applying the consolidation exception
HKAS 16 and HKAS 38 (Amendment)	Clarification of acceptable methods of depreciation and amortisation
HKAS 16 and HKAS 41 (Amendment)	Agriculture: bearer plants
HKAS 27 (Amendment)	Equity method in separate financial statements
HKAS 1 (Amendment)	Disclosure initiative
Annual improvements 2014	2012-2014 cycle of the annual improvements

- (b) Revenue recognition – Provision of internet community services

The Group provides design services to customers. For those services, revenue is recognised in the accounting period in which the services are rendered.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 expense. 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 consolidated financial statements for the nine months ended 31 December 2015.

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 nine months ended 31 December 2015.

There have been no changes in the risk management policies since 2015 year end.

5.2 Liquidity risk

Compared to the nine months ended 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities. As at 30 June 2016, balance of the Group's advances from customers is approximately HK\$81,591,000 (31 December 2015:nil) (Note 18).

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

5.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2016 and 31 December 2015.

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2016				
Assets				
Financial assets at fair value				
through profit or loss <i>(Note 11)</i>	47,040	–	–	47,040
Available-for-sale financial assets	–	763	–	763
Total assets	47,040	763	–	47,803
As at 31 December 2015				
Assets				
Financial assets at fair value				
through profit or loss <i>(Note 11)</i>	50,020	–	–	50,020
Available-for-sale financial assets	–	765	–	765
Total assets	50,020	765	–	50,785

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
- Current borrowings and non-current borrowings
- Trade and other payables

5.4 Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION

The chief operating decision-maker (“CODM”) of the Group has been identified as the executive directors of the Company who are responsible for reviewing the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group is organised into four business segments: internet community services (commenced since April 2016), investments, property investment and manufacture and sales of accessories.

The CODM assess the performance of the operating segments based on a measure of segment results. Finance cost and income are not included in the result 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 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 20)	–	–	530	–	530
Dividend income from available-for-sale financial assets (Note 20)	–	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 other income					350
Unallocated finance costs					(1,488)
Loss before income tax					(978)
Depreciation	(2,079)	–	–	(564)	(2,643)
Amortisation	–	–	–	(157)	(157)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 September 2015 are as follows:

	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	–	–	73,201	73,201
Rental income <i>(Note 20)</i>	–	557	–	557
Dividend income from available-for-sale financial assets <i>(Note 20)</i>	35	–	–	35
Changes in fair value of financial assets at fair value through profit or loss <i>(Note 11)</i>	(24,078)	–	–	(24,078)
	(24,043)	557	73,201	49,715
Segment (loss)/profit	(25,067)	(166)	4,981	(20,252)
Unallocated corporate expenses				(195,567)
Unallocated other income				43
Unallocated finance costs				(2,095)
Loss before income tax				(217,871)
Depreciation	–	–	(623)	(623)
Amortisation	–	–	(166)	(166)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities as at 30 June 2016 are as follows:

	Internet community services <i>HK\$'000</i>	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	49,165	50,073	18,720	25,506	143,464
Unallocated property, plant and equipment					61
Unallocated other receivables and prepayments					3,153
Cash and cash equivalents					790,899
Consolidated total assets					937,577
LIABILITIES					
Segment liabilities	83,970	–	400	30,600	114,970
Unallocated other payables and accrued charges					18,980
Unallocated borrowings					60,000
Current income tax liabilities					8,694
Deferred tax liabilities					4,040
Consolidated total liabilities					206,684

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities as at 31 December 2015 are as follows:

	Investments <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Manufacture and sales of accessories <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	50,785	19,992	28,194	98,971
Unallocated property, plant and equipment				81
Unallocated other receivables and prepayments				3,118
Cash and cash equivalents				764,136
Consolidated total assets				866,306
LIABILITIES				
Segment liabilities	–	–	33,190	33,190
Unallocated other payables and accrued charges				27,754
Unallocated borrowings				60,000
Current income tax liabilities				9,113
Deferred tax liabilities				4,266
Consolidated total liabilities				134,323

Except the new segment of internet community services, there are no differences from the latest financial statements for the nine months ended 31 December 2015 in the basis of segmentation or in the basis of measurement of segment profit or loss.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

	Property, plant and equipment <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>
Six months ended 30 September 2015		
Opening net book amount at 1 April 2015	5,114	21,546
Additions	108	–
Currency translation differences	(114)	(843)
Fair value loss on investment properties	–	(375)
Depreciation charges	(889)	–
	<hr/>	<hr/>
Closing net book amount at 30 September 2015	4,219	20,328
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 loss on investment properties	–	(952)
Depreciation charges	(2,895)	–
	<hr/>	<hr/>
Closing net book amount at 30 June 2016	27,135	18,720

(a) Valuation processes of the Group

The Group measures its investment properties at fair value. The fair value of the Group's investment properties 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 2016, in line with the Group's interim reporting date.

(b) Valuation techniques

Valuations were based on direct comparison approach, which is adopted 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 location and property size.

There were no changes to the valuation techniques during the six months ended 30 June 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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

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

Description	Fair value		Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of inputs of fair value
	30 June 2016 HK\$'000	31 December 2015 HK\$'000					
Industrial and dormitory buildings	18,720	19,992	Level 3	Market comparison approach	Unit price per square meter	For the six months ended 30 June 2016: HK\$1,333 to HK\$1,443 per square meter For the nine months ended 31 December 2015: HK\$1,143 to HK\$1,690 per square meter	The higher the market price, the higher the fair value

As of 30 June 2016, 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 2015: same).

8 INVENTORIES

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Raw materials	518	546
Work in progress	504	388
Finished goods	934	2,045
	1,956	2,979

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately HK\$30,867,000 (for the six months ended 30 September 2015: approximately HK\$48,768,000), which included inventories write-down of approximately HK\$9,000 (for the six months ended 30 September 2015: approximately HK\$76,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 TRADE RECEIVABLES

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Trade receivables (a)	23,115	23,567
Less: allowance for doubtful debts	(4,867)	(4,495)
Trade receivables – net	18,248	19,072

- (a) Trade receivables mainly arose from manufacture and sales of accessories business. 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 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Within 60 days	12,203	11,839
61 days to 150 days	6,019	7,148
151 days to 365 days	26	85
	18,248	19,072

As at 30 June 2016, trade receivables of approximately HK\$4,689,000 (31 December 2015: approximately HK\$5,683,000) 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 were as follows:

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Within 60 days	4,551	5,105
61 days to 150 days	138	578
	4,689	5,683

As at 30 June 2016, trade receivables of approximately HK\$4,867,000 (31 December 2015: approximately HK\$4,495,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Prepayments	18,314	302
Deductible input value-added tax	6,733	–
Amounts due from a related party (a)	2,899	2,727
Investment dividend receivable	2,269	–
Deposits	725	844
Others	1,318	929
	32,258	4,802
Less: non-current portion of prepayments (b)	(16,423)	–
	15,835	4,802

(a) Amounts due from a related party were the amounts due from the director of a subsidiary, which were unsecured, interest-free and repayable on demand.

(b) Amounts represented the prepayments for purchase of property, plant and equipment.

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June 2016	Six months ended 30 September 2015		
	Held-for- trading investments HK\$'000	Held-for- trading investments HK\$'000	Unlisted convertible bonds HK\$'000	Total HK\$'000
Balance at the beginning of the period	50,020	–	24,510	24,510
Additions	–	121,700	–	121,700
Changes in fair values recognised in profit or loss	(2,980)	(19,568)	(4,510)	(24,078)
Disposals	–	(53,582)	(20,000)	(73,582)
Balance at the end of the period	47,040	48,550	–	48,550

As at 30 June 2016, held-for-trading investments represented the Group's equity investments in certain Hong Kong listed companies, which were quoted in the Stock Exchange.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12 CASH AND CASH EQUIVALENTS

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Cash at bank and in hand:		
– Denominated in HK\$	678,630	739,325
– Denominated in other currencies	112,269	24,811
	790,899	764,136

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 <i>HK\$'000</i>	Share premium <i>HK\$'000</i>
Six months ended 30 September 2015			
Balance at 1 April 2015	31,268,921,605	312,689	4,133,356
Issue of new shares upon conversion of convertible bonds	4,375,000,000	43,750	390,371
Issue of new shares upon exercise of bonus warrants	1,098,324,677	10,983	98,633
Transaction costs attributable to issue of new shares	–	–	(3)
Balance at 30 September 2015	36,742,246,282	367,422	4,622,357
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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 OTHER RESERVES

	Convertible		Special reserve	Translation reserve	Enterprise Reserve fund	Expansion reserve	Share option reserve	Total	
	Warrants reserve	Investment equity revaluation reserve							
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Six months ended 30 September 2015									
Balance at 1 April 2015	(1,057)	423,289	(73)	13,901	4,512	1,084	1,083	-	442,739
Net loss on fair value changes of available for-sale financial assets	-	-	(90)	-	-	-	-	-	(90)
Exchange differences on translating foreign operations	-	-	-	-	672	-	-	-	672
Conversion and revision of terms of convertible bonds	-	(423,289)	-	-	-	-	-	-	(423,289)
Issue of new shares upon exercise of bonus warrants	216	-	-	-	-	-	-	-	216
Recognition of equity-settled share-based payments (Note 15)	-	-	-	-	-	-	-	184,808	184,808
Transfer to accumulated losses upon cancellation of share options (Note 15)	-	-	-	-	-	-	-	(184,808)	(184,808)
Balance at 30 September 2015	(841)	-	(163)	13,901	5,184	1,084	1,083	-	20,248
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

15 EQUITY-SETTLED SHARE-BASED PAYMENTS

Movements of share options reserve are as follows:

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Balance at the beginning of the period	-	-
Recognition of equity-settled share-based payment (a)	-	184,808
Transferred to accumulated losses upon cancellation of share options (b)	-	(184,808)
Balance at the end of the period	-	-

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 EQUITY-SETTLED SHARE-BASED PAYMENTS *(Continued)*

- (a) On 22 April 2015, the Company granted share options to two directors of the Company and several eligible employees (the "Grantees") under the Company's 2013 option scheme (the "2013 Option Scheme"), under which the option holders are entitled to acquire aggregate of 2,223,507,839 shares of the Company at the exercise price of HK\$0.275 per share upon the date of grant.

For the six months ended 30 September 2015, approximately HK\$184,808,000 were recognised as administrative expenses and share option reserves respectively for employee services received in respect of the 2013 Option Scheme.

- (b) On 22 May 2015, all Grantees agreed with the Company to cancel all share options granted to them under the 2013 Option Scheme without getting any compensation in return and the balance of share option reserves recognised under the 2013 Option Scheme amounted to approximately HK\$184,808,000 transferred to accumulated losses accordingly in 2015.

16 BORROWINGS

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Other borrowings – unsecured	60,000	60,000

The unsecured other borrowings denominated in HK\$ 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 date at the end of the period is as follows:

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
2 – 5 years	60,000	60,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 TRADE PAYABLES

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Trade payables	6,982	6,124

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

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Within 60 days	6,860	6,048
61 days to 150 days	95	23
Over 150 days	27	53
	6,982	6,124

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.

18 ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

	30 June 2016 <i>HK\$'000</i>	31 December 2015 <i>HK\$'000</i>
Advances from customers of internet community services	81,591	–
Other payables	30,088	34,272
Accrued expenses	4,685	7,355
Other taxes payable	10,255	12,683
	126,619	54,310

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 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 2016 HK\$'000	30 September 2015 HK\$'000
Cost of inventories sold	30,867	48,768
Staff costs (excluding share-based payments (Note 15))	17,047	17,317
Depreciation and amortisation	3,052	1,055
Consultants fees	1,500	704
Commission fees	918	829
Operating lease payments in respect of premises	1,374	1,410
Legal and professional fees	1,371	1,910
Directors' emoluments (excluding share-based payments (Note 15))	859	3,031
Auditor's remuneration	580	550
Reversal of provisions and other payables	(6,857)	–

20 OTHER INCOME

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Rental income	530	557
Interest income from unlisted convertible bonds	–	177
Dividend income from available-for-sale financial assets	35	35
Sundry income	239	31
	804	800

21 OTHER (LOSSES)/GAINS-NET

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Fair value losses on investment properties	(952)	(375)
Foreign exchange gains	109	77
Write-off of payables	–	2,485
Sundry (losses)/gains	(452)	329
	(1,295)	2,516

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 FINANCE COSTS-NET

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Finance costs:		
– Interests expenses on other borrowings	1,488	1,722
– Interests expenses on finance lease liabilities	11	17
– Interests expenses on convertible bonds	–	372
	1,499	2,111
Finance income:		
– Interest income on short-term bank deposits	(350)	(43)
Finance costs-net	1,149	2,068

23 INCOME TAX CREDIT

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Current income tax		
– provision for the period	(941)	(463)
– over-provision in respect of prior years	1,188	689
	247	226
Deferred income tax	157	65
	404	291

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 2016 (for the six months ended 30 September 2015: 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 September 2015: 25%) on the estimated assessable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

24 LOSS PER SHARE

(a) Basic

Basic loss per share is calculated by dividing the 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 2016	30 September 2015 (Adjusted)
Loss attributable to owners of the Company (HK\$'000)	(686)	(217,578)
Weighted average numbers of ordinary shares in issue (thousand shares)	80,743,439	79,468,868
Basic loss per share (HK cents per share)	(0.0008)	(0.2738)

The weighted average number of ordinary shares adopted in the calculation of basic loss per share for each of the six months ended 30 June 2016 and 30 September 2015 have been adjusted for the impact of share consolidation completed on 27 October 2015 and the bonus element implicit in the discount for the new shares and the new warrants issued on 26 October 2015.

(b) Diluted

No potential ordinary shares for each of the six months ended 30 June 2016 and 30 September 2015 were dilutive since their conversion to ordinary shares would result in a decrease in loss per share.

25 COMMITMENTS

(a) Operating leases commitments

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

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Not later than one year	1,628	1,380
Later than one year and not later than five years	417	923
	2,045	2,303

(b) Capital commitments

	30 June 2016 HK\$'000	31 December 2015 HK\$'000
Contracted but not provided for – online platform	16,111	110,019

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

26 RELATED PARTY TRANSACTIONS

The Group is controlled by China Evergrande Group, which owns indirectly 55% of the Company's shares. Mount Yandang Investment Limited, a wholly-own subsidiary of Tencent Holding Limited, owns 20% of the shares and the remaining 25% 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 2016 and 30 September 2015, 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

<u>Name</u>	<u>Relationship</u>
Mascotte Investments Limited	A company in which a key management personnel of the Group has controlling interest

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

(b) Transactions with related parties

	Six months ended	
	30 June 2016 HK\$'000	30 September 2015 HK\$'000
Rental fee charged by Mascotte Investments Limited	630	348

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results and Business Review

The Group recorded a loss for the six months ended 30 June 2016. The loss attributable to shareholders of the Company ("Shareholders") for the six months ended 30 June 2016 amounted to approximately HK\$0.7 million, which decreased by approximately HK\$216.9 million, as compared to the loss of approximately HK\$217.6 million for the six months ended 30 September 2015. The decrease in loss was mainly attributable to:

- (i) no equity-settled share-based payments expense recognised for the six months ended 30 June 2016 as compared to that of approximately HK\$184.8 million recognised for the six months ended 30 September 2015, which was in one-off nature; and
- (ii) decrease in net loss in fair value of financial assets at fair value through profit or loss from approximately HK\$24.1 million for the six months ended 30 September 2015 to approximately HK\$3.0 million for the six months ended 30 June 2016.

The basic and diluted loss per share was HK0.0008 cents for the six months ended 30 June 2016, as compared to the basic and diluted loss of HK0.2738 cents (adjusted) for the six months ended 30 September 2015.

Internet Community Service

During the six months ended 30 June 2016, the Group conducted its Internet community service business in communities across China, and turnover of approximately HK\$8,045,000 was recorded for such segment, including revenue from Internet home sector of approximately HK\$7,937,000 and revenue from community resource sector of approximately HK\$108,000.

Cost of Internet community service business represented mainly labour cost and depreciation. Gross profit margin of such segment was approximately 58.42%. After deducting distribution cost and administrative expense of approximately HK\$2,501,000, the segment recorded profit of approximately HK\$2,199,000.

(I) Market Overview

In recent years, development concepts such as "Internet Plus" and "mass entrepreneurship and innovation" have been included in the PRC government work report and became national development strategy. The Guiding Opinions of the State Council on Actively Promoting the "Internet Plus" Action were issued in July 2015, and the Report of the State Council on the Work of the Government for the Year 2016 further stressed the implementation of the "Internet Plus" Action. Such favourable policies have created precious opportunities for enterprises relating to the "Internet Plus" Action and enabled them to maintain rapid growth in the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

As stated in the Report of the State Council on the Work of the Government for the Year 2016, the supply side structural reform is one of the key tasks for the year 2016. Essentially the supply side structural reform aims to stimulate economic growth by improving the quality of supply to boost demand. It requires the supply side to further explore and effectively match potential demand to spur consumption growth. The rapid development of community Online-to-offline (O2O) services has significantly improved the quality of the supply side. Through such services, laundry can be collected and delivered at door. Users no longer have to go out to buy tickets. All these can be achieved through simple operation on a mobile phone. As pointed out by Li Keqiang, Premier of the State Council, the government will support the growth of consumption in elderly care, health services, housekeeping services, educational and training services, and cultural and sports services, and community O2O is also quite good at meeting such needs. As estimated by Roland Berger, a renowned institution, the size of the PRC O2O market will reach RMB51.2 billion by 2016 with a growth rate of 68% and will continue to grow at a high rate in the next five years. By 2020, it is estimated that commercial spending of communities in the PRC may reach RMB18 trillion, providing strong support for the development of the community O2O market, with a potential market size of trillions of Renminbi.

As an integrated Internet community service and resources operator jointly controlled by China Evergrande Group (“China Evergrande”) (HK.3333) and Tencent Holdings Limited (“Tencent”) (HK.0700), the Group, in accordance with the concept of platform operation and relying on China Evergrande’s advantages in large-scale communities and Tencent’s technical and portal support, provides property owners with one-stop services covering clothing, food, accommodation, transport and entertainment by introducing service providers that provide highest-quality services in various industries to meet the needs of residents, which help lower living cost and improve service efficiency.

With over 400 projects in around 180 cities across the PRC, China Evergrande’s contracted sales area has been ranked No.1 in the PRC for years and the number of its community property owners has maintained a rapid growth. Whereas Tencent has advanced internet technology resources and a vast user database, the total number of monthly active accounts of Tencent’s major platforms, including Weixin and QQ, is over 1.7 billion.

In the first half of 2016, by combining the strengths of the two major shareholders of the Company, centering on the “3+2+x” business plan previously adopted by the Group and relying on three fundamental segments being property services, neighborhood social networking and life services, two value-added segments being Internet home and community finance, and multi-function service segment which might be derived in the future, the Group continued to expand and diversify the functions of its products under the platform operation model of light assets, and recorded fast and steady growth.

MANAGEMENT DISCUSSION AND ANALYSIS

(II) Business Development

As at 30 June 2016, HengTen Mimi APP, an integrated community O2O platform developed by the Group, had been upgraded to version 2.5. The building of three fundamental segments was completed. The Internet home platform developed by the Group was upgraded to the HengTen Mijia platform and provided property owners in the first 23 Evergrande communities with “new properties with move-in condition”. In view of the above, the Board is of view that the innovative “Internet Plus Community” ecosphere developed by the Group is gradually taking shape.

1. Fundamental Segments

As planned, HengTen Mimi will carry out business in the three fundamental segments being property services, neighborhood social networking and life services. In the first half of 2016, the Group focused on improving the experience of users, expanding product functions and improving service quality. It launched HengTen Mimi versions 1.6 and 2.0 in March and May 2016, respectively, and completed the research and development and internal testing of HengTen Mimi version 2.5 on 30 June 2016, with the number of its platform functions increasing to 30 for version 2.5 from 6 for version 1.0.

In addition, the Group continued to develop business in a total of 12 communities in the first batch of pilot cities including Guangzhou, Shenyang, Shijiazhuang, Jinan, Luoyang, Wuhan, Changsha, Nanchang and Chengdu, and a large number of property owners have signed up to use the HengTen Mimi APP. As at the date of this report, the HengTen Mimi APP has a total of over 220,000 registered users, with pilot community property owner verification ratio of 96%, activity ratio of over 50%, and property owner function usage coverage ratio of 97%.

(1) Property Services

In addition to the existing online collection of property management fees, home facilities repair and maintenance, reporting public facilities requiring repair, community information communication, property owners’ voices, intelligent cat eyes and other functions, connecting with smart peephole and other intelligent home security monitoring equipment provided in its version 1.0, the HengTen Mimi APP will gradually add functions including housekeeper appraisal, property owner satisfaction survey and smart door magnetic alarm to connect online and offline property services, timely respond to the needs of property owners for highly-demanded daily services, increase the number of channels for them to give feedbacks, and further improve the experiences of users. Since its launch, the functions of the segment have become more frequently used, which has effectively improved users’ loyalty to the online service platform and activity and created opportunities for providing additional services.

MANAGEMENT DISCUSSION AND ANALYSIS

(2) *Neighborhood social networking*

In addition to event sharing function, additional functions including photo wall, selection and voting, career verification and neighborhood market and location-based relationship development were provided to tap into community life by participating in social activities and sharing lifestyle news, to cultivate usage habits, to conduct online events, and to develop interest groups and second-hand market. Since its launch, the segment has accumulated a large number of active users for the Group, paving the way for the development of community sharing economy model.

(3) *Life Services*

In the first half of 2016, a wide range of life service functions were launched. HengTen Mimi APP started to provide services for the convenience of users such as home cleaning, door-to-door laundry services, smart delivery cabinet and mobile phone account recharging, and its e-commerce platform Mimi Mall has started selling China Evergrande's own products, products provided directly by well-known e-commerce businesses and daily necessities including fresh food such as fruit, vegetable, meat, eggs, dairy products and poultry. Highly-demanded functions including exhibition of nearby businesses and users' reviews were completed for the community business circle. Through introducing the best service providers in various industries, the Group is committed to lowering living cost of community property owners and improving service efficiency.

2. **Value-added Segments**

(1) *Internet Home*

In the first half of 2016, the Group completed the development of its Internet home platforms, being HengTen Mijia WeChat Mall for mobile platform and online mall for PC platform.

For business development, the Group partnered with top-notch decoration and design teams across China to provide property buyers with custom-made full-set decoration and design proposals to meet their needs for high-quality home life designs through questionnaire, project positioning analysis and market survey.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group also set up an alliance with 15 suppliers of leading home product brands and four major national household electric appliance sellers to provide buyers of properties developed by China Evergrande with “new properties with move-in condition”. Through direct cooperation with manufacturers, all products are directly provided by them, which has provided property owners with real benefits by removing intermediate links and saving intermediary expenses. Further, the Group built model units with decorations identical to those to be delivered upon completion at its selected property projects, and adopted the model of “online exhibition through HengTen Mijia platform and offline experience of model units” to provide property buyers with full-set furniture, household electric appliances and customized household textile products, which has created one-stop home service experience that saves time, efforts, worries and money.

As at 30 June 2016, the Group had provided buyers of a total of 23 residential communities developed by China Evergrande in 22 cities in the PRC including Beijing, Chongqing, Chengdu, Shijiazhuang, Hefei, Wuhan, Nanchang, Dongguan, Heyuan, Chaozhou, Pinghu, Wuxi, Suqian, Jurong, Lianyungang, Xingtai, Huainan, Jingdezhen, Ji’an, Quzhou, Xiangyang and Xuchang, with “new properties with move-in condition”.

(2) *Community Finance*

In the first half of 2016, the Group launched “Enjoy Life” series community finance products to cater to diversified wealth management and consumption settings in view of the daily behaviours of users in community lives..

Its first product “Ye Zhu Bao” has been launched on the HengTen Mimi APP designed by the Group to meet the needs of community property management fee payment. Such product is available to property owners in China Evergrande communities only and can provide property management fee payment, investment and several value-added services.

3. ***Derivative Segments***

Based on in-depth survey and research of the needs of community property owners in respect of investment and appreciation in assets value, the Group explored a new business segment of sale and leasing of pre-owned properties and plans to build a community ecosphere covering leasing and living with HengTen Mimi APP. In the first half of 2016, the Group completed the market survey of such business and idle property resources owned by certain property owners, established a relevant database and selected two pilot projects. With idle properties entrusted by their owners for custody, the Group strived to quickly utilise idle properties through various leasing and management models, so as to enable value appreciation of such properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(III) Team Building

The Group has gradually established a team of high calibre personnel providing both online and offline services. For the online part, most of core team members are from largest domestic and overseas Internet companies and top three property developers in the PRC, and substantially all of them graduated from top universities in the PRC and overseas. With an average age of 28 and average industry experience of 6.5 years, they possess extensive experience in the Internet industry as well as higher efficiency and execution ability than industry peers. For the offline part, the Company has experienced property management teams in the PRC promoting products and providing services in the communities through seamless teamwork cooperation and connection with the online teams.

Investments

The segment recorded a loss of approximately HK\$0.7 million for the six months ended 30 June 2016 as compared with a loss of approximately HK\$25.1 million for the six months ended 30 September 2015. The substantial decrease in losses was mainly due to the decrease in loss from change in fair value of financial assets at fair value through profit or loss from approximately HK\$24.1 million for the six months ended 30 September 2015 to approximately HK\$3.0 million for the six months ended 30 June 2016.

Loan financing

During the six months ended 30 June 2016, no new loan was granted and therefore no interest income was generated for this segment (2015: nil).

Property investment

During the six months ended 30 June 2016, rental income of approximately HK\$0.5 million was generated.

With the decrease in fair value of investment properties as at 30 June 2016 as compared to 31 December 2015, a fair value loss of approximately HK\$1.0 million was recognised during the six months ended 30 June 2016. The decrease in fair value was mainly due to the decrease in the market price of the investment properties. Also, with the increase in the administrative cost for the building management service from approximately HK\$0.4 million for the six months ended 30 September 2015 to approximately HK\$1.4 million for the six months ended 30 June 2016, the segment recorded loss of approximately HK\$1.8 million for the six months ended 30 June 2016, as compared with loss of approximately HK\$0.1 million for the six months ended 30 September 2015.

Manufacture and sale of accessories

The segment's turnover decreased from approximately HK\$73.2 million for the six months ended 30 September 2015 to approximately HK\$49.9 million for the six months ended 30 June 2016, representing a decrease of approximately 31.8%. It was mainly due to a decrease in demand in photographic market and absence of the repeated significant order from a new customer acquired during the six months ended 30 September 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Due to the absence of relatively low margin of the above-mentioned significant order from a new customer, the gross profit margin of the segment increased from approximately 25.6% to 34.0% on average for the six months ended 30 June 2016. With the decrease in segment's turnover, the segment profit decreased by approximately HK\$3.8 million, from approximately HK\$5.0 million for the six months ended 30 September 2015 to approximately HK\$1.2 million for the six months ended 30 June 2016.

PROSPECTS

Internet Community Service

In the second half of 2016, the Group will continue to expand its product functions, further develop value-added services and conduct innovations based on the needs of property owners. It will also expand the scopes of pilot programs and increase their sizes.

(I) Product Development Plan

In the second half of 2016, HengTen Mimi APP will continue to enrich and expand its services and functions to enable full coverage of property management, social networking, life services, community finance, home, health and education, so that a brand new community ecosphere will be formed to further improve user experience. For Internet home, the Group will continue to optimise the HengTen Mijia platform and upgrade its product packages, and explore new business such as brand-new small space storage system.

1. Fundamental Segments

(1) Property Services

The Group will further improve intelligent community management, promote the adoption of various intelligent hardware and connect them to the HengTen Mimi platform, and continue to improve its basic community service functions, so as to make HengTen Mimi APP the most convenient and trusted communication tool for property owners.

(2) Neighborhood social networking

The segment will develop personalized services including interest and social groups and theme clubs in order to enhance user loyalty to social platforms, and will incubate second hand trading, item replacement and skill exchange segment to build shared community economy, protect environment and save energy.

(3) Life Services

Life services segment plans to introduce online life services such as car-leasing, car-washing, housekeeping and nursing, education and training, health services, tourism and ticket selling, hotel services and other vertical categories based on the lifestyle demand and habits on basic necessities preference analysis of the community property owners, which will cover almost all daily services required by residents and provide them with convenience.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Value-added Segments*

(1) *Internet Home*

In the second half of 2016, the Group will continue to optimise the functions and product packages of the HengTen Mijia platform, develop more vivid online exhibition functions and achieve all-around development of home business through the Internet.

Moreover, in view of current increase in prices of properties in the first and second-tier cities and larger percentage of properties with relatively small properties to total properties, the Group is actively exploring innovative home business including brand-new small space storage. It will strive to improve user experience through innovative designs to increase space utilisation ratio. It will also continue to diversify its Internet home business by exploring new property features including elderly care and vacation to develop unique home products matching the demand.

(2) *Community Finance*

In addition to the “Ye Zhu Bao” product already launched, additional community Internet finance products customized for community settings will be launched in the future.

Thereafter, the Group will introduce more high-quality wealth management products to property owners to cater to a wide range of settings including community business circle, community e-commerce, life services, community leasing and intelligent security system.

3. *Derivative Segments*

The Group will continue to explore sale and leasing of pre-owned properties and expand the coverage of pilot projects. By leveraging its advantages in consolidating resources, the Group will provide users with supplementary services to property leasing to lower users’ cost of leasing and sale and improve service efficiency.

(II) **Platform Operation Plan**

In view of the vast blue ocean community market, a strategy of pilot first, orderly expansion and efficient advancement will continue to be implemented to realize step-by-step coverage of all China Evergrande communities and other communities across the PRC and realize a leaping increase in the number of users.

In 2015, the Group’s community O2O products have been fully launched in 12 pilot China Evergrande communities, providing high frequency and high quality property, social networking and life services for property owners in pilot communities. In accordance with the development scale objectives of the Group, the coverage of products and services will expand to most of China Evergrande communities during 2016. The service will cover all China Evergrande communities and will expand to other communities across the PRC, establishing its absolute leading position in the O2O market in 2017. In 2018, the Group will continue its integration and development in domestic community, further expand community O2O service functions and value-added services, and advance the blue ocean market expected to worth trillions of dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacturing and sales of accessories

The Group expects that its manufacture and sales of photographic accessories will encounter sluggish market demand attributable to weakening Euro dollars which may reduce the demand of European markets, the biggest markets accounted to approximately 46% of the turnover in this business segment, and 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. 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, other borrowings and cash generated from operations. During the six months ended 30 June 2016, 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 2016, the Group maintained cash and bank balances of approximately HK\$790.9 million (as at 31 December 2015: approximately HK\$764.1 million). The increase in cash and bank balances was mainly due to the advanced receipt from the provision of the "home decoration design package" service in the Internet community service segment.

Capital Resources – exercise of the bonus warrants during the six months ended 30 June 2016

The bonus warrants issue to Shareholders on the basis of one warrant (the "Existing Warrant") 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, in which every two issued and unissued shares of par value of HK\$0.001 each of the Company were consolidated into one consolidated share of par value of HK\$0.002 each of the Company (the "Share Consolidation"). During the six months ended 30 June 2016, 1,313,900 new shares of the Company had been issued and allotted upon exercise of HK\$262,780.00 Existing Warrants (adjusted with Share Consolidation) with net proceeds of approximately HK\$0.26 million which have been used as general working capital of the Company.

Borrowings and Gearing Ratio

As at 30 June 2016, the Group's total equity amounted to approximately HK\$730.9 million (as at 31 December 2015: approximately HK\$732.0 million). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing bank and other borrowings plus obligations under finance lease) over shareholders' funds was 8.31% (as at 31 December 2015: 8.32%).

As at 30 June 2016, the Group had no secured bank borrowings (as at 31 December 2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE OF ASSETS

As at 30 June 2016, margin facilities of approximately HK\$18.2 million (as at 31 December 2015: approximately HK\$19.5 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\$47.0 million (as at 31 December 2015: approximately HK\$50.0 million) were treated as collateral for the facilities granted.

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 2016 (as at 31 December 2015: nil).

CURRENCY RISK MANAGEMENT

The Group operates in Hong Kong and the People Republic of China (the "PRC"). The majority of the Group's assets are denominated in Hong Kong Dollars with no material foreign exchange exposure. The Group's manufacturing business also operates in overseas markets, which alone accounts for approximately HK\$34.7 million of the Group's sales turnover. In safeguarding the volatile Euro Dollars currency risk, the management has chosen to adopt a more prudent sales policy by mainly accepting sale orders quoted in US dollars, which in turn could enable the management to maintain a stable currency exchange condition for normal trading business development. The Group currently does not have a foreign currency hedging policy. During the six months ended 30 June 2016, the Directors are of the view that the Group's exposure to exchange rate risk is not material, and will continue to monitor it.

INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 September 2015: 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 2016.

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 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 2016.

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

As at 30 June 2016, 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 ("Listing Rules") as adopted by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2016, 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 (formerly known as Evergrande Real Estate Group Limited)	40,417,570,910	4,706,459,934	45,124,030,844	Interest of a controlled corporation	61.32%
Solution Key Holdings Limited (Note 1)	40,417,570,910	4,706,459,934	45,124,030,844	Beneficial owner	61.32%
Tencent Holdings Limited	14,697,298,513	1,711,439,976	16,408,738,489	Interest of a controlled corporation	22.30%
Water Lily Investment Limited (Note 2)	14,697,298,513	1,711,439,976	16,408,738,489	Beneficial owner	22.30%

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 2016, 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 2016, no option had been granted and there was no outstanding share option of the Company as at 30 June 2016 (as at 31 December 2015: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, the Group employed approximately 385 employees, around 65.7% and 24.2% of them were employed in the PRC for the manufacturing business and the internet community service business of the Group respectively. 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 2016, including Directors' emoluments, amounted to approximately HK\$17.9 million.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 2016.

The interim financial information of the Company for the six months ended 30 June 2016 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 2016.

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2016 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 Ms. Zhang Xiaohua. 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 Ms. Zhang Xiaohua (as the chairlady 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 of the Company are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the Shareholders and other stakeholders. The Company complied with the Code during the six months ended 30 June 2016 except for the following deviations from the Code provision:

- a) 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 2016, 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.
- b) Code Provision E.1.2 stipulated that the chairman of the board should attend the annual general meeting of the Company. Mr. Peng Jianjun, the ex-chairman of the Board, did not attend the annual general meeting held on 10 June 2016 due to work reasons.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code 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 2016.

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

Zhang Xiaohua
Chairlady

Hong Kong, 23 August 2016