恒腾网络集团
hengten networks group

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)

2018
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Mr. Fong Kar Chun, Jimmy

REGISTERED OFFICE

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2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRARS

Bermuda

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

Hong Kong

Tricor Secretaries Limited
Level 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**22,435**	27,324
Intangible assets	6	**6,291**	8,443
Investment properties	6	**15,600**	15,600
Deferred tax assets		**1,148**	771
Financial assets at fair value through other comprehensive income		**621**	–
Available-for-sale financial assets		**–**	645
Other receivables and prepayments	9	**9,718**	268
		55,813	53,051
Current assets			
Inventories	7	**25,072**	4,616
Trade receivables	8	**136,251**	177,612
Other receivables and prepayments	9	**16,935**	16,278
Financial assets at fair value through profit or loss	10	**53,729**	53,042
Cash and cash equivalents	11	**1,123,931**	901,165
		1,355,918	1,152,713
Total assets		**1,411,731**	1,205,764
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	12	**150,172**	150,172
Share premium	12	**4,454,940**	4,454,940
Other reserves	13	**25,215**	9,234
Accumulated losses		**(3,637,974)**	(3,734,094)
		992,353	880,252
Non-controlling interests		**728**	803
Total equity		**993,081**	881,055

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)

	Note	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	14	**50,848**	50,000
Obligations under finance leases		**274**	461
Deferred tax liabilities		**3,551**	3,551
		54,673	54,012
Current liabilities			
Trade payables	15	**31,835**	65,661
Contract liabilities		**26,789**	–
Other payables and advance receipts	16	**270,987**	170,588
Current income tax liabilities		**33,981**	34,076
Obligations under finance leases		**385**	372
		363,977	270,697
Total liabilities		**418,650**	324,709
Total equity and liabilities		**1,411,731**	1,205,764

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

Xu Wen
Director

Huang Xiangui
Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended	
		30 June 2018	30 June 2017
		(Unaudited)	(Unaudited)
			(Restated)
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**230,294**	82,046
Cost of sales	*17*	**(48,297)**	(33,858)
Gross profit		**181,997**	48,188
Selling and marketing costs	*17*	**(30,569)**	(4,228)
Administrative expenses	*17*	**(25,637)**	(20,305)
Changes in fair value of financial assets at fair value through profit or loss	*5,10*	**(203)**	5,540
Other income	*18*	**3,665**	174
Other expenses	*19*	**(3,430)**	–
Other gains – net		**635**	48
Operating profit		**126,458**	29,417
Finance costs	*20*	**(1,222)**	(1,339)
Finance income	*20*	**4,201**	491
Finance income/(costs) – net	*20*	**2,979**	(848)
Profit before income tax		**129,437**	28,569
Income tax expense	*21*	**(28,511)**	(6,876)
Profit for the period		**100,926**	21,693
Other comprehensive income			
Item that may be reclassified to profit or loss			
Net loss on fair value changes of financial assets at fair value through other comprehensive income		**(34)**	–
Exchange differences on translating foreign operations		**11,134**	(19,134)
Other comprehensive income for the period		**11,100**	(19,134)
Total comprehensive income for the period		**112,026**	2,559

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont'd)

		Six months ended	
		30 June 2018	30 June 2017
		(Unaudited)	(Unaudited)
			(Restated)
	Note	***RMB'000***	*RMB'000*
Profit/(loss) for the period attributable to:			
– owners of the Company		**101,001**	21,606
– non-controlling interests		**(75)**	87
		100,926	21,693
Total comprehensive income for the period attributable to:			
– owners of the Company		**112,101**	2,359
– non-controlling interests		**(75)**	200
		112,026	2,559
Earnings per share attributable to owners of the Company for the period (expressed in RMB cents per share)			
– Basic earnings per share	*22*	**0.1244**	0.0266
– Diluted earnings per share	*22*	**0.1203**	0.0266

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company						
	Share capital *RMB'000* *(Note 12)*	Share premium *RMB'000* *(Note 12)*	Other reserves *RMB'000* *(Note 13)*	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2017 (Restated)	150,151	4,452,855	46,489	(3,820,370)	829,125	4,167	833,292
Comprehensive income (Restated)							
– Profit for the period	–	–	–	21,606	21,606	87	21,693
– Other comprehensive income	–	–	(19,247)	–	(19,247)	113	(19,134)
Total comprehensive income	–	–	(19,247)	21,606	2,359	200	2,559
Transactions with owners (Restated)							
– Issue of new shares upon exercise of bonus warrants	21	2,122	4	–	2,147	–	2,147
– Expiry of bonus warrants	–	–	353	(353)	–	–	–
– Transfer to statutory reserve	–	–	2,639	(2,639)	–	–	–
Total transactions with owners	21	2,122	2,996	(2,992)	2,147	–	2,147
Balance at 30 June 2017(Restated)	150,172	4,454,977	30,238	(3,801,756)	833,631	4,367	837,998

	Unaudited						
	Attributable to owners of the Company						
	Share capital ***RMB'000*** *(Note 12)*	**Share premium** ***RMB'000*** *(Note 12)*	**Other reserves** ***RMB'000*** *(Note 13)*	**Accumulated losses** ***RMB'000***	**Total** ***RMB'000***	**Non-controlling interests** ***RMB'000***	**Total equity** ***RMB'000***
Balance at 31 December 2017	**150,172**	**4,454,940**	**9,234**	**(3,734,094)**	**880,252**	**803**	**881,055**
Comprehensive income							
– Profit for the period	**–**	**–**	**–**	**101,001**	**101,001**	**(75)**	**100,926**
– Other comprehensive income	**–**	**–**	**11,100**	**–**	**11,100**	**–**	**11,100**
Total comprehensive income	**–**	**–**	**11,100**	**101,001**	**112,101**	**(75)**	**112,026**
Transactions with owners							
– Transfer to statutory reserve	**–**	**–**	**4,881**	**(4,881)**	**–**	**–**	**–**
Total transactions with owners	**–**	**–**	**4,881**	**(4,881)**	**–**	**–**	**–**
Balance at 30 June 2018	**150,172**	**4,454,940**	**25,215**	**(3,637,974)**	**992,353**	**728**	**993,081**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Six months ended 30 June 2018 (Unaudited) RMB'000	Six months ended 30 June 2017 (Unaudited) (Restated) RMB'000
Cash flows of operating activities			
Net cash generated from operations		**239,929**	3,141
Interest paid		**(1,222)**	(1,339)
Income tax paid		**(28,839)**	(510)
Net cash generated from operating activities		**209,868**	1,292
Cash flows of investing activities			
Purchase of property, plant and equipment		**(2,745)**	(335)
Purchase of intangible asset		**–**	(5,366)
Proceeds from disposal of property, plant and equipment		**–**	26
Investment income		**–**	137
Dividend income received		**26**	30
Interest received		**4,201**	491
Net cash generated from/(used in) investing activities		**1,482**	(5,017)
Cash flows of financing activities			
Issue of new shares upon exercise of bonus warrants		**–**	2,148
Repayment of obligations under finance leases		**(180)**	(208)
Net cash (used in)/generated from financing activities		**(180)**	1,940
Net increase/(decrease) in cash and cash equivalents		**211,170**	(1,785)
Cash and cash equivalents at beginning of period		**901,165**	836,150
Exchange gain/(loss) on cash and cash equivalents		**11,596**	(20,229)
Cash and cash equivalents at end of period	*11*	**1,123,931**	814,136

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

1 GENERAL INFORMATION

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

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

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

This condensed consolidated interim financial information is presented in thousands of Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the board of directors of the Company on 23 August 2018.

This condensed consolidated interim financial information has been reviewed, not audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 ("Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard 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 2017 and any public announcements made by the Group during the interim reporting period.

(a) Change in presentation currency

During the year ended 31 December 2017, the Group has changed its presentation currency from Hong Kong dollars ("HK$") to RMB for the preparation of its consolidated financial statements. Having considered the principal activities of the Group are now mainly conducted in the People's Republic of China (the "PRC") where the functional currency of those subsidiaries in the PRC are in RMB, the directors of the Company considered that the change would result in a more appropriate presentation of the Group's performance and financial position in these consolidated financial statements and provide more relevant financial information to the readers.

The change in presentation currency has been applied retrospectively. The comparative figures in these consolidated financial statements were then translated to RMB using the applicable closing rates for assets and liabilities in the consolidated balance sheet and applicable average rates for items in the consolidated statement of comprehensive income and the consolidated statement of cash flows. Share capital, share premium and reserves were translated at the exchange rate at the date when the respective amounts were determined (i.e. historical exchange rates).

2 BASIS OF PREPARATION *(Continued)*

(a) Change in presentation currency *(Continued)*

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the above and the adoption of new and amended standards as set out below (Note 3).

(b) New and amended standards adopted by the Group

The following amended standards are mandatory for the first time for the financial year beginning on 1 January 2018

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from contracts with customers
HKFRS 1 (Amendment)	First time adoption of HKFRS 1
HKFRS 2 (Amendment)	Classification and measurement of share-based payment transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKAS 28 (Amendment)	Investments in associates and joint ventures
HKAS 40 (Amendment)	Transfers of investment property
HK (IFRIC) 22	Foreign currency transactions and advance consideration

The adoption of the above new and amended standards did not have any material impact on the Interim Financial Information except for disclosure set out in Note 3.

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

	Effective for accounting periods beginning on or after
HKFRS 16 "Leases"	1 January 2019
HK (IFRIC) 23" Uncertainty over income tax treatments"	1 January 2019
Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"	To be determined

The Group has already commenced an assessment of the impact of these new or revised standards, interpretation and amendments. According to the preliminary assessment made by the directors, no significant impact on the financial performance and position of the Group is expected when they become effective except for HKFRS 16.

2 BASIS OF PREPARATION *(Continued)*

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

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB230,814,000 (Note 23). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

3 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

The directors of the Group consider that the changes in the Group's accounting policies do not have any material impacts on prior year financial statements.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKFRS 9 Financial Instruments – Impact of adoption

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

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 only resulted in changes in accounting policies. No material adjustments were made to the amounts recognised in the financial statements. The new accounting policies are set out in note 3(c) below.

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

The Group's trade receivables are subject to HKFRS 9's new expected credit loss model. The Group was required to revise its impairment methodology under HKFRS 9. The directors of the Croup consider that there is no material impact of the change in impairment methodology on the Group's retained earnings and equity.

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 *(Continued)*

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 *(Continued)*

Measurement *(Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

As at 30 June 2018, the loss allowance provision was determined as follows; the expected credit losses below also incorporated forward looking information.

Trade receivables	Current	Up to 60 days past due	Up to 120 days past due	Up to 180 days past due	More than 180 days past due	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Expected loss rate	–	5%	15%	25%	50%	
Gross carrying amount	132,418	1,812	1,730	7	1,275	137,242
Loss allowance	–	91	260	2	638	991

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 *(Continued)*

Impairment *(Continued)*

As at 30 June 2018, the loss allowance provision for trade receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables *RMB'000*
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	1,273
Amounts restated through opening retained earnings	–
Opening loss allowance as at 1 January 2018 (calculated under HKFRS 9)	1,273
Amounts recovered during the period	(282)
Closing loss allowance as at 30 June 2018 (calculated under HKFRS 9)	991

For other financial assets at amortised, the Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method. Thus no loss allowance provision was recognised as at 30 June 2018.

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The directors of the Group consider the changes on the Group's revenue recognition do not have material impact on the amounts recognised in the financial statements.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(e) HKFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

The following describes the Group's updated revenue from contracts with customers' policy to reflect the adoption of HKFRS 15:

Contract assets and liabilities

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods and provision of internet community services in the ordinary course of the Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Group companies. The Group recognises revenue when specific criteria have been met for each of the Group's activities, as described below.

Sales of goods

The Group manufactures and sells accessories for photographic and electrical products in wholesale market. Revenue from sales of goods are recognised when the products have been delivered to the customers.

Provision of internet community services

The Group provides internet platform usage service mainly to household product seller and buyer. Service fee revenues are recognised at the point of completion of transaction through the Group's online platform and is determined as a percentage of the transaction amount achieved by using the Group's platform.

The Group also provides intermediary service to materials sellers and buyers, through its platform and network resources in the building furnishing materials industry, where the Group is not the primary obligor, does not bear the inventory risk nor have the ability to establish the price. Upon successful sales, the Group will charge the materials sellers a service fee based on the transactions amount. Service fee is recognised as revenue on a net basis at the point of receipt of materials by the buyers.

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

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

The following table presents the Group's financial assets measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

	Level 1
	RMB'000
As at 30 June 2018	
Assets	
Financial assets at fair value through profit or loss ("FVTPL")	53,729
FVOCI	621
Total	54,350
As at 31 December 2017	
Assets	
FVTPL	53,042
FVOCI	645
Total	53,687

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

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

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

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

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

5 SEGMENT INFORMATION

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

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

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

	Internet community services *RMB'000*	Investments *RMB'000*	Property investment *RMB'000*	Manufacture and sales of accessories *RMB'000*	Consolidated *RMB'000*
Revenue	194,851	126	–	35,317	230,294
Timing of revenue recognition					
– At a point of time	–	126	–	35,317	35,443
– Over time	194,851	–	–	–	194,851
Dividend income from FVOCI (Note 18)	–	26	–	–	26
Net change in fair value of financial assets at fair value through profit or loss (Note 10)	–	(203)	–	–	(203)
	194,851	(51)	–	35,317	230,117
Segment profit/(loss)	124,401	(51)	(656)	5,500	129,194
Unallocated corporate expenses					(2,748)
Unallocated finance income-net					2,991
Profit before income tax					129,437
Depreciation of property, plant and equipment	(7,606)	–	–	(436)	(8,042)
Amortisation of intangible assets and land use rights	(2,148)	–	–	(85)	(2,233)

5 SEGMENT INFORMATION *(Continued)*

The segment results and other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2017 are as follows:

	Internet community services (Restated) *RMB'000*	Investments (Restated) *RMB'000*	Property investment (Restated) *RMB'000*	Manufacture and sales of accessories (Restated) *RMB'000*	Consolidated (Restated) *RMB'000*
Revenue	49,886	128	–	32,032	82,046
Timing of revenue recognition					
– At a point of time	–	128	–	32,032	32,160
– Over time	49,886	–	–	–	49,886
Dividend income from AFS (Note 18)	–	30	–	–	30
Investment income	–	137	–	–	137
Net change in fair value of financial assets at fair value through profit or loss (Note 10)	–	5,540	–	–	5,540
	49,886	5,835	–	32,032	87,753
Segment profit/(loss)	25,724	5,836	(519)	1,936	32,977
Unallocated corporate expenses					(3,582)
Unallocated finance costs-net					(826)
Profit before income tax					28,569
Depreciation of property, plant and equipment	(6,436)	–	–	(660)	(7,096)
Amortisation of intangible assets and land use rights	(1,574)	–	–	(131)	(1,705)

5 SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities as at 30 June 2018 are as follows:

	Internet community services *RMB'000*	Investments *RMB'000*	Property investment *RMB'000*	Manufacture and sales of accessories *RMB'000*	Consolidated *RMB'000*
ASSETS					
Segment assets	195,103	54,350	15,600	18,769	283,822
Unallocated other receivables and prepayments					2,830
Deferred tax assets					1,148
Cash					1,123,931
Consolidated total assets					1,411,731
LIABILITIES					
Segment liabilities	308,904	–	–	18,625	327,529
Unallocated other payables					2,741
Borrowings					50,848
Current income tax liabilities					33,981
Deferred tax liabilities					3,551
Consolidated total liabilities					418,650

5 SEGMENT INFORMATION *(Continued)*

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

	Internet community services *RMB'000*	Investments *RMB'000*	Property investment *RMB'000*	Manufacture and sales of accessories *RMB'000*	Consolidated *RMB'000*
ASSETS					
Segment assets	210,837	53,687	15,600	20,801	300,925
Unallocated property, plant and equipment					1
Unallocated other receivables and prepayments					2,902
Deferred tax assets					771
Cash and cash equivalents					901,165
Consolidated total assets					1,205,764
LIABILITIES					
Segment liabilities	209,607	–	–	24,530	234,137
Unallocated other payables					2,945
Unallocated borrowings					50,000
Current income tax liabilities					34,076
Deferred tax liabilities					3,551
Consolidated total liabilities					324,709

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

- all assets are allocated to reportable and operating segments, other than certain property, plant and equipment, certain other receivables and prepayments, deferred tax assets and cash; and

- all liabilities are allocated to reportable and operating segments, other than certain advance receipts and other payables, borrowings, current income tax liabilities and deferred tax liabilities.

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

	Property, plant and equipment *RMB'000*	Intangible assets *RMB'000*	Investment properties *RMB'000*
Six months ended 30 June 2017(Restated)			
Opening net book amount at 1 January 2017	36,093	6,122	15,400
Additions	5,848	5,257	–
Currency translation differences	(47)	–	–
Disposals	(155)	–	–
Fair value gains on investment properties	–	–	200
Depreciation and amortisation charges	(7,109)	(1,576)	–
Closing net book amount at 30 June 2017	34,630	9,803	15,600
Six months ended 30 June 2018			
Opening net book amount at 1 January 2018	**27,324**	**8,443**	**15,600**
Additions	**3,136**	**–**	**–**
Currency translation differences	**17**	**–**	**–**
Disposals	**–**	**(4)**	**–**
Fair value gains on investment properties	**–**	**–**	**–**
Depreciation and amortisation charges	**(8,042)**	**(2,148)**	**–**
Closing net book amount at 30 June 2018	**22,435**	**6,291**	**15,600**

(a) Valuation processes of the Group

The Group measures its investment properties at fair value. The fair value of the Group's investment properties at 30 June 2018 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 2018, in line with the Group's interim reporting date.

(b) Valuation techniques

Valuations were based on market comparison approach assuming sale of each of these properties in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as property size.

There were no changes to the valuation techniques during the six months ended 30 June 2018.

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

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

Description	Fair value 30 June 2018 RMB'000	Fair value 31 December 2017 RMB'000	Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of inputs of fair value
Industrial and dormitory buildings	**15,600**	15,600	Level 3	Market comparison approach	Unit price per square meter	For the six months ended 30 June 2018: RMB1,000 to RMB1,500 per square meter For the year ended 31 December 2017: RMB1,000 to RMB1,500 per square mete	The higher the market price, the higher the fair value

As of 30 June 2018, 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 2017: same).

7 INVENTORIES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Raw materials	**1,352**	573
Work in progress	**615**	485
Finished goods	**23,105**	3,558
	25,072	4,616

The cost of inventories recognised as expenses and included in "cost of sales" amounted to approximately RMB27,803,000 (for the six months ended 30 June 2017: approximately RMB19,389,000).

8 TRADE RECEIVABLES

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Trade receivables (a)	**137,242**	178,885
Less: allowance for doubtful debts	**(991)**	(1,273)
Trade receivables – net	**136,251**	177,612

(a) Trade receivables mainly arose from manufacture and sales of accessories and internet community services. The Group allows a credit period ranging from 60 to 210 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 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 60 days	**35,370**	171,397
61 days to 180 days	**32,721**	6,068
181 days to 365 days	**68,160**	147
	136,251	177,612

(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 2018 was determined and disclosed in Note 3 (c).

9 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Deposit and other receivables	**14,551**	9,697
Prepayments	**3,783**	1,125
Amounts due from a related party (Note 24(d))	**6,732**	2,549
Deductible input value-added tax	**1,587**	3,175
	26,653	16,546
Less: non-current portion of deposit receivables and prepayments (a)	**(9,718)**	(268)
	16,935	16,278

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

(b) As at 30 June 2018, the directors considered that the expected credit loss for other receivables due from third parties and related parties and prepayments were immaterial thus no loss allowance was made.

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Six months ended 30 June 2018 RMB'000	Year Ended 31 December 2017 RMB'000
Balance at the beginning of the period	**53,042**	45,750
Changes in fair value recognised in profit or loss	**(203)**	10,791
Currency translation differences	**890**	(3,499)
Balance at the end of the period	**53,729**	53,042

As at 30 June 2018, financial assets at fair value through profit or loss represented the Group's equity investments in certain Hong Kong listed companies, which were quoted in the Stock Exchange.

11 CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Cash at bank and in hand:		
– Denominated in HKD	**669,382**	662,133
– Denominated in RMB	**450,044**	234,960
– Denominated in other currencies	**4,505**	4,072
	1,123,931	901,165

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

12 SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares, issued and fully paid:

	Number of ordinary shares	**Share capital**	**Share premium**
		RMB'000	*RMB'000*
Six months ended 30 June 2017			
Balance at 1 January 2017(Restated)	74,599,533,447	150,151	4,452,855
Issue of new shares upon exercise of bonus warrants	12,135,640	21	2,122
Balance at 30 June 2017(Restated)	74,611,669,087	150,172	4,454,977
Six months ended 30 June 2018			
Balance at 1 January 2018 and 30 June 2018	74,611,669,087	150,172	4,454,940

13 OTHER RESERVES

	Warrants reserve	Investment revaluation reserve	Special reserve	Translation reserve	Statutory reserve	Reserve fund	Enterprise expansion reserve	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2017								
Balance at 1 January 2017(Restated)	(459)	(149)	18,888	24,618	1,286	1,153	1,152	46,489
Transfer to statutory reserve	–	–	–	–	2,639	–	–	2,639
Exchange differences on translating foreign operations	–	–	–	(19,181)	–	–	–	(19,181)
Issue of new shares upon exercise of bonus warrants	4	–	–	–	–	–	–	4
Transfer to accumulated losses upon expiry of bonus warrants	287	–	–	–	–	–	–	287
Balance at 30 June 2017(Restated)	(168)	(149)	18,888	5,437	3,925	1,153	1,152	30,238
Six months ended 30 June 2018								
Balance at 1 January 2018	**(168)**	**(168)**	**18,888**	**(22,502)**	**10,879**	**1,153**	**1,152**	**9,234**
Net loss on fair value changes of FVOCI	**–**	**(34)**	**–**	**–**	**–**	**–**	**–**	**(34)**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**4,881**	**–**	**–**	**4,881**
Exchange differences on translating foreign operations	**–**	**(2)**	**–**	**11,136**	**–**	**–**	**–**	**11,134**
Balance at 30 June 2018	**(168)**	**(204)**	**18,888**	**(11,366)**	**15,760**	**1,153**	**1,152**	**25,215**

14 BORROWINGS

	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
Other borrowings – unsecured	**50,848**	50,000

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

14 BORROWINGS *(Continued)*

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
2 – 5 years	**25,424**	50,000
over 5 years	**25,424**	–
	50,848	50,000

15 TRADE PAYABLES

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Within 60 days	**25,478**	62,822
61 days to 150 days	**3,623**	2,371
Over 150 days	**2,734**	468
	31,835	65,661

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

16 OTHER PAYABLES AND ADVANCE RECEIPTS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Other payables (i)	**251,726**	138,526
Accrued expenses	**15,096**	10,851
Provisions for other taxes	**4,165**	16,048
Advance receipts	**–**	5,163
	270,987	170,588

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

17 EXPENSES BY NATURE

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

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 (Restated) RMB'000
Staff costs	**50,127**	23,898
Cost of inventories sold	**27,803**	19,389
Depreciation and amortisation	**10,274**	8,814
Advertising and promotion fees	**5,037**	1,781
Operating lease payments in respect of premises	**4,393**	604
Directors' emoluments	**3,117**	875
Agent fees	**650**	708
Auditor's remuneration	**603**	614
Commission fees	**602**	463
Legal and professional fees	**525**	1,409
Reversal of provisions and other payables (a)	**(5,927)**	(5,531)

(a) During the six months ended 30 June 2018, the Group assessed on the provisions for the taxes and surcharges in relation with certain transactions for which the ultimate tax determination is uncertain. Management considered provisions of RMB5,927,000 (six months ended 30 June 2017: RMB5,531,000) were not necessary and determined to reverse the provisions during the period.

18 OTHER INCOME

	Six months ended 30 June 2018	30 June 2017 (Restated)
	RMB'000	*RMB'000*
Network equipment usage and maintenance service income (Note 24 (b))	**3,554**	–
Investment income	**–**	137
Dividend income from FVOCI	**26**	30
Sundry income	**85**	7
	3,665	174

19 OTHER EXPENSE

	Six months ended 30 June 2018	30 June 2017 (Restated)
	RMB'000	*RMB'000*
Depreciation of leased network equipment	**3,430**	–

20 FINANCE (INCOME)/COSTS – NET

	Six months ended 30 June 2018	30 June 2017 (Restated)
	RMB'000	*RMB'000*
Finance costs:		
– Interest expenses on borrowings	**1,209**	1,317
– Interest expenses on obligations under finance lease	**13**	22
	1,222	1,339
Finance income:		
– Interest income on deposits	**(4,201)**	(491)
Finance (income)/costs – net	**(2,979)**	848

21 INCOME TAX EXPENSE

	Six months ended	
	30 June 2018	30 June 2017
		(Restated)
	RMB'000	*RMB'000*
Current income tax		
– provision for the period	**30,962**	7,602
– over-provision in respect of prior periods	**(2,074)**	(633)
	28,888	6,969
Deferred income tax	**(377)**	(93)
	28,511	6,876

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 2018 (for the six months ended 30 June 2017: nil).

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate of 25% (for the six months ended 30 June 2017: 25%) on the estimated assessable profits for the periods, based on the existing legislation, interpretations and practices in respect thereof.

22 EARNINGS PER SHARE

(a) Basic

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

	Six months ended	
	30 June 2018	30 June 2017 (Restated)
Earnings attributable to owners of the Company (RMB'000)	**101,001**	21,606
Weighted average number of ordinary shares in issue (thousands)	**81,165,285**	81,164,472
Earnings per share (RMB cents per share)	**0.1244**	0.0266

The weighted average number of ordinary shares adopted in the calculation of basic earnings per share for the six months ended 30 June 2018 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 2018	30 June 2017 (Restated)
Profit attributable to owners of the Company (RMB'000)	**101,001**	21,606
Weighted average number of ordinary shares in issue (thousands)	**81,165,285**	81,164,472
Adjustment for share warrants (thousands)	**2,819,167**	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**83,984,452**	81,164,472
Diluted earnings per share (RMB cents per share)	**0.1203**	0.0266

23 COMMITMENTS

(a) Operating leases commitments

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

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Not later than one year	**51,469**	1,488
Later than one year and not later than five years	**179,345**	3,988
	230,814	5,476

(b) Capital commitments

	30 June 2018 *RMB'000*	31 December 2017 *RMB'000*
Contracted but not provided for		
– Network equipment	**31**	3,108

24 RELATED PARTY TRANSACTIONS

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

In addition to those disclosed elsewhere in the financial information, during the six months ended 30 June 2018 and 2017, the Group had the following significant transactions with related parties, which are carried out in the normal course of the Group's business:

(a) Name and relationship with related parties

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

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

24 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with related parties

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
(i) Rental expenses:		
Guangzhou Jiasui Property Co., Ltd	**740**	–
Mascotte Investments Limited	**585**	584
	1,325	584
(ii) Revenue from network equipment usage and maintenance service:		
Evergrande Internet Financial Services (Shenzhen) Co., Ltd	**3,554**	–

(c) Key management compensation

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Key management compensation:		
– Salaries and other benefits	**3,117**	2,718

(d) Balance with related parties

As at 30 June 2018 and 31 December 2017, the Group had the following significant balances with related parties:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Due from related parties:		
– Evergrande Internet Financial Services (Shenzhen) Co., Ltd	**4,140**	–
– A key management personnel	**2,592**	2,549
	6,732	2,549

Amounts due from related parties were unsecured, interest-free and repayable on demand.

FINANCIAL RESULTS AND BUSINESS REVIEW

The Group recorded a profit attributable to owners of the Company of approximately RMB101.0 million for the six months ended 30 June 2018, which increased by approximately RMB79.4 million as compared to a profit of approximately RMB21.6 million for the six months ended 30 June 2017. The increase in the profit for the six months ended 30 June 2018 was mainly due to a continuous growth in the internet community services business segment, which contributed a segment profit of approximately RMB124.4 million for the six months ended 30 June 2018 as compared to a segment profit of approximately RMB25.7 million for the six months ended 30 June 2017.

The basic and diluted earnings per share were RMB0.1244 cents and RMB0.1203 cents for the six months ended 30 June 2018 respectively as compared to the basic and diluted earnings per share of RMB0.0266 cents for the six months ended 30 June 2017.

Internet community services

During the six months ended 30 June 2018, the Group conducted its internet community services business in the communities across China, and its turnover increased from approximately RMB49.9 million for the six months ended 30 June 2017 to approximately RMB194.9 million for the six months ended 30 June 2018, including revenue from internet home furnishing sector of approximately RMB93.3 million, revenue from internet materials logistics business sector of approximately RMB94.9 million, revenue from community resources sector (being the fundamental sector of internet community services) of approximately RMB6.3 million and revenue from other sectors of approximately RMB0.4 million.

The cost of internet community services business are mainly labour costs and depreciation of network equipment. Gross profit margin of such segment was approximately 87.5%. After deducting distribution cost and administrative expense of approximately RMB46.1 million, the segment recorded profit of approximately RMB124.4 million.

(I) Market Overview

In the first half of 2018, China's GDP grew by 6.8%, and its economic growth demonstrated a continuous trend of improvement. Concurrently, the 19th National Congress of the Communist Party of China put forward the objective of building China's strength in cyberspace, developing digital China and a smart society, developing digital and sharing economies, fostering new growth areas and forming new drivers.

The rapid economic growth and social development in the PRC have provided a favourable environment for the Group. As the integrated internet service operator built by China Evergrande Group ("**China Evergrande**") (HK.3333) and Tencent Holdings Limited ("**Tencent Holdings**") (HK.0700) with the platform thinking, the Group enjoys strong support from these two substantial shareholders of the Company for its development.

China Evergrande, as one of the Fortune 500 enterprises and a leading property developer in the PRC, continues to develop affordable properties by adopting a strategy of delivering high-quality properties. It has over 800 projects in more than 280 cities across the PRC. Tencent Holdings, as one of the leading internet value-added service providers in the PRC, possesses advanced internet technologies and had a total of over 1.8 billion monthly live accounts in Weixin, Wechat and QQ as at the end of the first quarter of 2018, representing a huge customer base.

Under the environment of rapid growth of the Chinese economy and favourable policies and the strong support from two substantial shareholders of the Company, the Group continued to develop as an integrated internet service operator using the platform operation thinking and the light asset operation model in 2018.

(II) Business Development

The Group's products and service system continued to be optimised. In the first half of 2018, the Group continued to consolidate high-quality resources within the industry, and strived to create smart and convenient community life experience for community property owners, to build an open and sharing model for enterprise customers to achieve a mutually beneficial and win-win situation and to provide consumers with cost-effective products and services.

The Group's operation capability continued to be enhanced. Relying on its extensive community resources, the Group cultivated a targeted community user base, deeply explored the values of community scenes, and made great efforts to expand related business. As a result of its flexible and effective operational strategies, the Group realised rapid growth of results in the first half of 2018. During the reporting period, the Group recorded revenue of approximately RMB230.3 million, representing a year-on-year growth of 180.69%.

The Group's business presence continued to expand. With the brand recognition of its two substantial shareholders, the Group further consolidated its supplier resources and strengthened its efforts to develop the internet materials logistics business. As a result, it has established a brand-new business structure comprising three core sectors, being internet community services, internet home furnishing and internet materials logistics.

In the first half of 2018, the Group maintained steady operation. With serving users and supporting industry development as the core principles, it continued to provide community property owners, enterprise customers and consumers with competitive multi-scene solutions, products and services, and continued to cultivate an open, sharing, interactive and coordinated internet service ecosystem.

1. Internet Community Services

As previously stated in China's New Urbanization Plan 2014-2020, during the 13th five-year period, China will launch 100 new pilots for "smart city", and the Group's internet community services with smart community as the core is an integral part of smart city.

In the first half of 2018, the Group continued to deeply explore the community scenes. Relying on HengTen Mimi, being its independently developed one-stop internet community service platform, it continued to provide property management services with higher quality. The Group continued to operate its fundamental property services at 41 communities in cities including Guangzhou, Chengdu, Shenyang, Shijiazhuang, Jinan and Luoyang.

For the HengTen Mimi App which serves property owners, the Group continued to optimise its basic service functions such as community broadcasting, property service fee payment, property repair request and owners' voices during the reporting period. For the Mimi Housekeeper App which serves property management companies, the Group optimised its basic functions including repair management, affair management, broadcasting management, and payment record search.

During the reporting period, the Group also actively explored smart life solutions, researched and developed a smart home system with smart router as the core and a smart community system with the Internet of Things platform as the core, in order to comprehensively improve the living experience of property owners and effectively strengthen the efficiency of property management and services.

2. *Internet Home Furnishing*

According to the National Bureau of Statistics of the PRC, per capita disposable income of China was RMB25,974 in 2017, representing an increase of 7.3% as compared to 2016. On the other hand, the proportion of consumers in the new generation (aged 18-35) to the urban population aged 15-70 in the PRC continued to increase, who have a growing acceptance of the internet home furnishing business.

With a good environment for consumption and effective operation methods, as at 30 June 2018, the Group operated internet home furnishing business at nearly 350 projects in 166 cities across China. During the reporting period, the Group provided furnishing design plans to 38,000 community property owners with sales of RMB896.2 million and recognised revenue of RMB93.3 million.

(1) Online and offline business models became more mature

The Group maintains the operating model of "light assets and heavy focus on experiences". The O2O business model of the internet home furnishing business, "display on online shopping mall platform and experience at offline physical scenes" is already very mature. The Group opened a total of nearly 3,300 offline experience sample rooms as at 30 June 2018.

Besides, with an effective online and offline marketing system, the Group has successfully realized standardized and large-scale operation.

(2) Products and service system were improved

The Group's product portfolio was further diversified. Based on big data and consumption insight, the Group matched and adapted to the property types and users' habits and provide customised one-stop home solutions including customised furniture, home appliances, balcony fabrics and ornament furnishings. In the first half of 2018, the Group further expanded the product mix of home furnishing, decoration and kitchen supplies to meet the personalized, customised and diversified needs of community property owners.

The service system was further improved. On the one hand, the Group continued to improve the user experience in home marketing, logistics and distribution, installation and aftersales and to build a standardized service process centering around users. On the other hand, the Group strived to eliminate the obstacles between the needs of property owners and product design, manufacturing and services in order to improve service efficiency.

The number of cooperative brands continued to increase. With consumption upgrading and the rise of new consumption concepts, the Group improved the geographical coverage and degree of its brand influence through multiple channels. As at the end of the first half of the year, the number of brand members of the "Home Alliance" of the Group increased to 28, fully meeting the growing needs of property owners for consumption.

Management of partners was further improved. The Group assesses partners from multiple perspectives and strengthens control and protection, and has established a sound partner rating system.

(3) *Pilot exploration of external expansion*

The Group continued to seek new growth drivers for its home furnishing business and has started to expand its B2B business model. The Group is also committed to researching and developing overall solutions for the design and supply of soft decorations for apartments and residential properties.

3. *Internet Materials Logistics*

According to the data provided by China Building Decoration Association, the size of the PRC home construction materials market reached RMB4.23 trillion in 2016, of which the size of the residential decoration market was RMB1.78 trillion. Since 2016, local governments across the PRC have successively promulgated the policies and regulations for high-quality decoration, and the delivery of "rough house" will gradually exit from the property market. The Company anticipates that the demand of small and medium sized property developers for high-quality decoration will further increase.

The current situations of the construction materials market call for the consolidation of resources by industry giants. The Group vigorously develops internet materials logistics business to provide high-quality decoration materials supply chain services. In the first half of 2018, the Group's internet materials logistics business recorded sales of RMB624.9 million and recognised revenue of RMB94.9 million.

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

China Evergrande, as one of the two substantial shareholders of the Group, is a pioneer for delivery of properties with complete and high-quality decoration in the PRC and an industry benchmark for standardized high-quality decoration operation. It has widespread presence in the PRC and makes annual procurement amounting to over RMB20 billion.

On the one hand, the Group maximized its use of extensive resources of China Evergrande including over 20 strategic partners for high-quality decoration and more than 200 material suppliers in the PRC. On the other hand, the Group utilized the experience of China Evergrande in the management and implementation of high-quality decorations for 10 years, including a national quality inspection and acceptance system and a strict technical standard management system and a dynamic supplier assessment and management system.

(2) *Establishment of a high-quality construction material procurement platform*

The Group continues to optimise the functions of its construction material procurement platform and is committed to providing one-stop construction material procurement services with higher quality and cultivating a simple, transparent, safe and efficient trading environment, in order to effectively assist small- and medium-sized property developers in quickly realizing high-quality bulk decoration and facilitate the mass furnishing strategy and national business presence of home decoration enterprises.

(3) *Provision of highly competitive construction material products*

With its extensive construction material supplier resources and China Evergrande's advantage in centralized procurement in the amount of dozens of billions of Renminbi each year, the Group can provide highly competitive construction material products.

In terms of price advantage, the Group has significantly lowered its comprehensive procurement cost, which helps procurement enterprises to control procurement risks and improve procurement management and also lower the market development cost of suppliers and expand the size of supplier transactions.

In terms of the diversity of product offering, the Group further expanded its quality brand resources, established a sounder brand and product mix, and continued to enrich the offering and styles of its products, realizing full coverage of interior high-quality decoration material products.

In terms of product quality assurance, the Group selects construction material suppliers with strong qualifications and good reputation, which has ensured both the reliability and stability of the product quality.

(4) *Completion of initial establishment of a sales network*

Five major warehousing and logistics centres were established. In the first half of 2018, the Group established high-standard modern warehousing and logistics centres in Tianjin, Foshan, Changshu, Wuhan and Chengdu, which cover five major areas, being north China, south China, east China, central China and southwest China.

Sales teams covering China were set up. The Group has set up sales teams in five major areas, being south China, central China, north China, east China and southwest China, which, with service range covering the whole country, has effectively facilitated the regional expansion and offline promotion of its internet materials logistics business.

Investments

The segment turned from gain of approximately RMB5.8 million for the six months ended 30 June 2017 to a loss of approximately RMB51,000 for the six months ended 30 June 2018, mainly because the fair value of financial assets at fair value through profit or loss recorded a fair loss of approximately RMB0.2 million for the six months ended 30 June 2018 while a fair value gain of approximately RMB5.5 million was recorded for the six months ended 30 June 2017.

Details of significant investment in the shares of other listed companies held by the Group as at 30 June 2018 are as follows:

Stock Code	Stock Abbreviation	Fair Value as at 31 December 2017	Number of shares held	Fair Value as at 30 June 2018	Gains (loss) during the six months ended 30 June 2018	Accounting Items
		RMB'000		*RMB'000*	*RMB'000*	
939	CCB	12,000	2,000,000	12,288	81	Financial assets at fair value through profit or loss
2800	TRACKER FUND	25,042	1,000,000	24,958	(487)	Financial assets at fair value through profit or loss
3988	BANK OF CHINA	16,000	5,000,000	16,483	203	Financial assets at fair value through profit or loss
Total		53,042		53,729	(203)	

Note: "Gains (loss) during the six months ended 30 June 2018" in the above table refers to the impact of related securities investment on net change in the fair value of the financial assets at fair value through profit or loss in the consolidated statement of comprehensive income of the Group during the six months ended 30 June 2018.

Loan financing

During the six months ended 30 June 2018, no new loan was granted and therefore no interest income was generated for this segment (six months ended 30 June 2017: nil).

Property investment

During the six months ended 30 June 2018, no rental income was generated.

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

Manufacture and sale of accessories

The segment's turnover increased from approximately RMB32.0 million for the six months ended 30 June 2017 to approximately RMB35.3 million for the six months ended 30 June 2018, representing an increase of approximately 10.3%, mainly contributed from the increase in orders from one of the major clients with a new product line.

With the intention to expand turnover with the new product lines, the gross profit margin recorded approximately 32.3% for the six months ended 30 June 2018, with a slight decrease of approximately 5.4 percentage points on average as compared to the six months ended 30 June 2017.

PROSPECTS

Internet community services

In the future, the Group will maintain its momentum of steady operation, facilitate the continuous expansion of internet community services, promote the in-depth development of the internet home furnishing business, strengthen its efforts in establishing wide presence of its internet materials logistics business, and realize the coordinated progress and development of its three core business activities.

1. *Internet Community Services*

In the future, the Group will continue to rely on the community resources of China Evergrande and deepen community operation services. While providing basic property services, the Group will also leverage advanced artificial intelligence and Internet of Things technologies to further optimise its smart community system and smart home system and be committed to providing user with brand-new living experience integrating technologies.

2. *Internet Home Furnishing*

Relying on its mature home operation and service system, the Group plans to expand its service offerings in the second half of 2018 and provide internet home furnishing business in communities across China. In addition, through big data analysis, the Group will continue to expand the targeted customer base in an orderly manner according to the operational plan. Furthermore, the Group will continue to carry out refined operation of its property delivery scenes, and a professional operation management team and a service team with national coverage will provide strong support to the implementation of the internet home furnishing business of the Group.

Enrich the house product system. In 2018, the Group will continue to expand the scope of partner brands for the "Home Alliance", strengthen its resource consolidation and control ability, and provide more one-stop-shop home solutions.

Meet customers' needs in a targeted manner. With expanding business scope and deeper business scenes, the Group will further improve data collection, strengthen information review and analysis, eliminate the barriers between business links and meet more precise user needs.

Facilitate rapid project expansion. The Group will consolidate its advantageous resources to provide products, services and brands, continue to explore more home furnishing business scenes and further improve its market share.

3. Internet Materials Logistics

In the future, the Group will further improve its regional warehousing and logistics network to realize steady supply and fast delivery of construction material products and will continue to improve its services. The Group will build a construction material procurement platform with higher quality and start to establish a supply chain management system to improve business efficiency.

Manufacturing and sales of accessories

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

LIQUIDITY, CAPITAL RESOURCES, BORROWINGS AND GEARING RATIO

The Group primarily financed its operations through shareholder's equity, borrowings and cash generated from operations. During the six months ended 30 June 2018, the liquidity of the Group was closely monitored by the Board and the Group reviews its working capital and finance requirements on a regular basis.

Liquidity

As at 30 June 2018, the Group maintained cash and bank balances of approximately RMB1,123.9 million (as at 31 December 2017: approximately RMB901.2 million). The increase in cash and bank balances was mainly contributed from the operations from internet community segment.

Borrowings and Gearing Ratio

As at 30 June 2018, the Group's net equity amounted to approximately RMB993.1 million (as at 31 December 2017: approximately RMB881.1 million) with total assets amounted to approximately RMB1,411.7 million (as at 31 December 2017: approximately RMB1,205.8 million). Net current assets were approximately RMB991.9 million (as at 31 December 2017: approximately RMB882.0 million) and the current ratio was 3.7 times (as at 31 December 2017: 4.3 times). Gearing ratio calculated on the basis of the Group's total debts (interest-bearing borrowings plus obligations under finance lease) over shareholders' funds was 5.19% (as at 31 December 2017: 5.77%).

CHARGE OF ASSETS

As at 30 June 2018, margin facilities of approximately RMB20.6 million (as at 31 December 2017: approximately RMB20.3 million) from one regulated securities broker were granted to the Group under which financial assets at fair value through profit or loss of approximately RMB53.7 million (as at 31 December 2017: approximately RMB53.0 million) were treated as collateral for the facilities granted.

COMMITMENT

As at 30 June 2018, the Group has capital commitment of approximately RMB31,000 mainly for system development and purchase of technology equipment in relation to the internet community services online platform (as at 31 December 2017: approximately RMB3,108,000).

CONTINGENT LIABILITIES

The Group had not provided corporate guarantee to its subsidiaries or other parties and did not have other contingent liabilities as at 30 June 2018 (as at 31 December 2017: nil).

CURRENCY RISK MANAGEMENT

The Group had significant amount of assets and liabilities denominated in Renminbi ("**RMB**") during the six months ended 30 June 2018. The internet community services business is mainly carried out in RMB in China. Therefore, the Group is exposed to the risk of significant fluctuation in RMB exchange rates. During the six months ended 30 June 2018, the Group closely monitored the fluctuation and does not expect any material fluctuation of exchange rates in the near future, but will continue to monitor it.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 2018.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly and indirectly, subsisted during or at the end of the six months ended 30 June 2018.

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

As at 30 June 2018, the interest and short position of the Directors of the Company in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance Cap. 571 of the Laws of Hong Kong) ("**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 ("**Model Code**") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Hong Kong Listing Rules**"), were as follows:

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

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

Name of Director	Nature of interest	Number of shares of the associated corporation held *(Note 2)*	Deemed interests in number of shares of the associated corporation *(Note 2)*	Total	Approximate percentage of shareholding of the associated corporation *(Note 2)*
Mr. Huang Xiangui	Beneficial owner	800,000	–	800,000	0.01%

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

Save as disclosed above, as at 30 June 2018, none of the Directors of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations that were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2018, shareholders who had interests or short positions in the shares or underlying shares of the Company of 5% or more which fell to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO, were as follows:

Interest in the shares and underlying shares – long positions

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

Notes:

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

Save as disclosed above, as at 30 June 2018, 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 2018, no option had been granted and there was no outstanding share option of the Company as at 30 June 2018 (as at 31 December 2017: nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group employed approximately 586 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 2018, including directors' emoluments, amounted to approximately RMB53.2 million.

EVENTS AFTER THE END OF THE REPORTING PERIOD

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

AUDIT COMMITTEE

The audit committee is principally responsible for reviewing of effectiveness of the Company's internal audit function, reviewing and supervising the Group's financial reporting process, risk management and internal control system and providing advice and recommendations to the Board. The audit committee comprises three independent non-executive Directors ("**INED(s)**") of the Company, namely Mr. Chau Shing Yim, David (as the chairman of the audit committee), Mr. Nie Zhixin and Mr. Chen Haiquan. The revised terms of reference of the audit committee are consistent with the terms set out in the relevant section of the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules. No changes were made to the terms of reference of the audit committee during the six months ended 30 June 2018.

The interim financial information of the Company for the six months ended 30 June 2018 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 2018.

The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2018 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE

The Board considers that good corporate governance practices are crucial to the smooth and effective operation of the Group and the safeguarding of the interests of the shareholders and other stakeholders of the Company. The Company has put in place internal policies to ensure the compliance and has adopted and complied with the code provisions set out in the Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2018 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 2018, the Company has no such title as chief executive officer. The overall responsibility of supervising and ensuring that the Group functions in line with the order of the Board in terms of day-to-day operation and execution is vested in the Board itself.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set forth in Appendix 10 to the Listing Rules as the code of conduct for securities transactions conducted by the Directors. The Company, having made detailed and cautious enquiries, confirmed that all Directors have abided by the Model Code for the six months ended 30 June 2018.

FORWARD LOOKING STATEMENTS

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

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

Hong Kong, 23 August 2018