大賀傳媒股份有限公司

DAHE MEDIA CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code：8243)

2016

Interim Report

*For identification Purposes only

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This report, for which the directors of Dahe Media Co., Ltd. collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Dahe Media Co., Ltd.*. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make this report or any statement herein misleading.*

HIGHLIGHTS

- For the six months ended 30 June 2016, the Group realised a turnover of approximately RMB154,783,000 (2015: RMB147,527,000), representing an increase of approximately 5% over the same period of 2015.
- Gross turnover of the Group for the six months ended 30 June 2016 was mainly from media dissemination, terminal dissemination service, media production and art trading, representing approximately 54.56% (2015: 49.9%), 42.56% (2015: 36.79%), 2.78% (2015: 11.96%) and 0.1% (2015: 1.35%) respectively of the gross turnover.
- For the six months ended 30 June 2016, profit attributable to the owners of the Company was approximately RMB11,915,000 (2015: RMB10,670,000), representing an increase of approximately 12% over the same period of 2015.
- Earnings per share were approximately RMB1.44 cent (2015: RMB1.28 cent).
- The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The board (the "Board") of directors (the "Directors") of Dahe Media Co., Ltd.* (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2016 (the "Period under Review"), together with the comparative figures for the corresponding period in 2015 as follows, which have been reviewed by the audit committee of the Company:

	Notes	**For the six months ended 30 June**		**For the three months ended 30 June**	
		2016	2015	**2016**	2015
		RMB'000	RMB'000	**RMB'000**	RMB'000
		Unaudited	Unaudited	**Unaudited**	Unaudited
Turnover	2	**154,783**	147,527	**87,450**	82,306
Cost of sales		**(101,843)**	(89,497)	**(56,466)**	(47,677)
Gross profit		**52,940**	58,030	**30,984**	34,629
Other income and net gain		**4,518**	(17)	**3,033**	(478)
Distribution costs		**(16,754)**	(16,224)	**(7,957)**	(7,363)
Administrative expenses		**(16,103)**	(18,204)	**(8,520)**	(10,726)
Profit from operations		**24,601**	23,585	**17,540**	16,062
Finance costs		**(10,453)**	(10,921)	**(5,861)**	(6,010)
Profit before income tax	4	**14,148**	12,664	**11,679**	10,052
Income tax expenses	5	**(2,305)**	(2,167)	**(1,903)**	(1,362)
Profit and total comprehensive income for the period		**11,843**	10,497	**9,776**	8,690
Attributable to owners of the Company		**11,915**	10,670	**9,818**	8,797
Non-controlling interests		**(72)**	(173)	**(42)**	(107)
		11,843	10,497	**9,776**	8,690
Earnings per share – Basic (RMB)	7	**1.44 cents**	1.28 cents	**1.18 cents**	1.06 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 RMB'000 Unaudited	As at 31 December 2015 RMB'000 Audited
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		**41,800**	41,800
Property, plant and equipment		**86,342**	93,215
Prepaid land lease payments		**1,975**	2,003
Goodwill		**15,679**	15,679
Other intangible assets		**1,308**	1,421
Interests in a joint venture		**1,934**	1,934
Available-for-sale financial assets		**52**	52
Total non-current assets		**149,090**	156,104
Current assets			
Inventories		**42,744**	42,246
Trade and note receivable	9	**305,364**	280,409
Other receivables, deposits and prepayments		**200,247**	175,628
Amount due from holding company		**12,350**	7,385
Amounts due from a fellow subsidiary		**30,028**	29,895
Amounts due from related companies		**616**	—
Bank balances and cash and pledged bank deposit		**94,354**	117,050
Total current assets		**685,703**	652,613
Total assets		**834,793**	808,717

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 30 June 2016 RMB'000 Unaudited	As at 31 December 2015 RMB'000 Audited
Current liabilities			
Trade payables	10	**61,790**	69,743
Other payables, deposits received and accruals		**2,793**	9,103
Deferred advertising income		**20,832**	24,973
Finance lease payables		**4,050**	6,937
Amount due to related parties		**—**	196
Amount due to a fellow subsidiary		**1,029**	899
Bank borrowings		**386,000**	336,500
Income tax payables		**2,122**	13,925
Other tax payables		**2,031**	3,628
Total current liabilities		**480,647**	465,904
Net current assets		**205,056**	186,709
Total assets less current liabilities		**354,146**	342,813
Non-current liabilities			
Finance lease payables		**7,823**	8,333
Deferred tax liabilities		**5,123**	5,123
Net assets		**341,200**	329,357
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		**83,000**	83,000
Reserves	8	**257,866**	245,951
Equity attributable to owners of the Company		**340,866**	328,951
Non-controlling interests		**334**	406
Total equity		**341,200**	329,357

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000 Unaudited	Share premium and capital reserves RMB'000 Unaudited	Statutory surplus reserve RMB'000 Unaudited	Other reserves RMB'000 Unaudited	Retained profits RMB'000 Unaudited	Equity attributable to owners of the Company RMB'000 Unaudited	Non-controlling interests RMB'000 Unaudited	Total equity RMB'000 Unaudited
As at 1 January 2015	83,000	97,252	28,085	(48,289)	146,910	306,958	2,804	309,762
Profit for the period	—	—	—	—	10,670	10,670	(173)	10,497
As at 30 June 2015	83,000	97,252	28,085	(48,289)	157,580	317,628	2,631	320,259
Profit for the period	—	—	—	—	11,323	11,323	(215)	11,108
Acquisition of additional interests in a subsidiary								
Disposal of a subsidiary	—	—	(243)		243	—	(2,010)	(2,010)
Appropriations to statutory reserve	—	—	2,161	—	(2,161)	—	—	—
As at 1 January 2016	83,000	97,252	30,003	(48,289)	166,985	328,951	406	329,357
Profit for the period	—	—	—	—	11,915	11,915	(72)	11,843
As at 30 June 2016	83,000	97,252	30,003	(48,289)	178,900	340,866	334	341,200

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June 2016 RMB'000 Unaudited	For the six months ended 30 June 2015 RMB'000 Unaudited
Cash flows (used in)/generated from operating activities	**(58,197)**	(56,139)
Cash flows used in investing activities	**373**	348
Cash flows generated from/(used in) financing activities	**35,128**	41,168
Net increase/(decrease) in cash and cash equivalents	**(22,696)**	(14,623)
Cash and cash equivalents at the beginning of period	**117,050**	106,495
Cash and cash equivalents at the end of period	**94,354**	91,872
Bank balances and cash	**94,354**	91,872

NOTES TO THE CONDENSED FINANCIAL INFORMATION

1. BASIS OF REPORTING

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and Chapter 18 of the GEM Listing Rules.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited annual financial statements of the Group for the year ended 31 December 2015. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2015.

2. TURNOVER

Turnover represents the sales value of goods sold and services provided to customers after allowances for returns and discounts and is analysed as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
	Unaudited	Unaudited	**Unaudited**	Unaudited
Income from the media dissemination	**84,454**	73,618	**46,015**	39,177
Income from terminal dissemination	**65,883**	54,279	**39,534**	32,424
Income from media production	**4,298**	17,636	**1,901**	9,795
Art trading	**148**	1,994	**—**	910
	154,783	147,527	**87,450**	82,306

3. SEGMENT REVENUE AND RESULTS

Operating segments are reported in a manner consistent with the internal reporting, in accordance with the Group's internal organisation and reporting structure, provided to the chief operating decision-maker to make strategic decisions.

The Group has four reportable segments. The segments are managed separately as each business offers different products and requires different business strategies.

The following summary describes the operations in each of the Group's reportable segments:

– Media dissemination

– Media production

– Terminal dissemination

– Art trading

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The Group's senior executive management monitors assets and liabilities on a consolidated basis and not by reportable segment. Accordingly, no additional information on assets and liabilities is presented.

For the six months ended 30 June 2016 (unaudited)

	Media Dissemination RMB'000	Media Production RMB'000	Terminal Dissemination Services RMB'000	Art trading RMB'000	Total RMB'000
Revenue from external customers	84,454	4,298	65,883	148	154,783
Reportable segment results	36,405	540	15,950	45	52,490
Other income and net loss					4,518
Distribution costs					(16,754)
Administrative expenses					(16,103)
Finance costs					(10,453)
Profit before income tax					14,148

For the six months ended 30 June 2015 (unaudited)

	Media Dissemination RMB'000	Media Production RMB'000	Terminal Dissemination Services RMB'000	Art trading RMB'000	Total RMB'000
Revenue from external customers	73,618	17,636	54,279	1,994	147,527
Reportable segment results	36,827	1,890	18,762	551	58,030
Other income and net loss					(17)
Distribution costs					(16,224)
Administrative expenses					(18,204)
Finance costs					(10,921)
Profit before income tax					12,664

4. PROFIT BEFORE INCOME TAX

	For the six months ended 30 June		**For the three months ended 30 June**	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
	Unaudited	Unaudited	**Unaudited**	Unaudited
Profit before income tax is arrived after charging the following:				
Depreciation	**10,474**	11,402	**5,172**	5,609
Amortisation of prepaid land lease payment	**28**	28	**14**	14
Amortisation of other intangible assets	**113**	113	**57**	57

5. INCOME TAX EXPENSE

The provision for PRC Enterprise Income Tax ("EIT") is based on the estimated taxable income for PRC taxation at the rate of taxation applicable for the relevant year.

In accordance with the PRC Enterprise Income Tax Law which became effective from 1 January 2008, an unified enterprise income tax rate of 25% will be applied to both domestic-invested enterprises and foreign-invested enterprises. Pursuant to the relevant PRC laws and regulations, as the Company is a qualified high technology enterprise, the Company is subject to a preferential EIT rate of 15% for the six months ended 30 June 2016 (2015: 15%). The subsidiaries of the Company are subject to standard EIT rate of 25% for the six months ended 30 June 2016.

6. DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2016 is based on the profit attributable to ordinary equity owners of the Company of RMB11,915,000 (2015: RMB10,670,000) and the weighted average number of shares in issue of 830,000,000 (2015: 830,000,000).

8. RESERVES

	Share capital RMB'000 Unaudited	Share premium and capital reserves RMB'000 Unaudited	Statutory surplus reserve RMB'000 Unaudited	Retained profits RMB'000 Unaudited	Total reserves RMB'000 Unaudited
As at 1 January 2015	83,000	97,252	23,415	126,725	247,392
Total comprehensive income for the period	—	—	—	5,434	5,434
As at 30 June 2015	83,000	97,252	23,415	132,159	252,826
As at 1 January 2016	83,000	97,252	24,122	141,110	262,484
Total comprehensive income for the period	—	—	—	5,916	5,916
As at 30 June 2016	83,000	97,252	24,122	147,026	268,400

9. TRADE AND NOTE RECEIVABLES

The Group generally grants credit terms of 120 days (same period of 2015: 120 days) to major customers and 90 days (same period of 2015: 90 days) to others trade customers. Ageing analysis of trade and note receivables, net of allowance, as at the end of the reporting period, based on invoice date, is as follows:

	As at 30 June 2016 RMB'000 Unaudited	As at 31 December 2015 RMB'000 Audited
0-90 days	**124,617**	133,053
91-180 days	**43,637**	37,459
181-365 days	**51,872**	35,997
Over 365 days	**85,238**	73,900
	305,364	280,409

10. TRADE PAYABLES

Ageing analysis of trade payables based on invoice date as at the end of the reporting period is as follows:

	As at 30 June 2016 RMB'000 Unaudited	As at 31 December 2015 RMB'000 Audited
0-90 days	**38,065**	39,749
91-180 days	**9,622**	9,907
181-365 days	**3,911**	5,914
Over 365 days	**10,192**	14,173
	61,790	69,743

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

For the six months ended 30 June 2016, the Group achieved a turnover of approximately RMB154,783,000 (2015: RMB147,527,000), representing an increase of approximately 5% over the same period last year. During the period, profit attributable to the shareholders was approximately RMB11,915,000 (2015: RMB10,670,000), representing an increase of approximately 12% over the same period last year. Earnings per share increased by 12% to RMB1.44 cent (2015: RMB1.28 cent).

The turnover remained stable and had slightly increased mainly due to the continuous improvement of the terminal dissemination business level, together with the Group's constant efforts in consolidating the community media resources and the outdoor media resources across the country based on the customers' needs at the same time.

During the period, the revenue from outdoor advertising media dissemination business, terminal dissemination service, media production and art trading business accounted for approximately 54.56% (2015: 49.9%), 42.56% (2015: 36.79%), 2.78% (2015: 11.96%) and 0.1% (2015: 1.35%), respectively, of the Group's turnover. The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

MEDIA DISSEMINATION BUSINESS

During the Period under Review, the Group's media dissemination business recorded a turnover of approximately RMB84,454,000 (2015: RMB73,618,000), representing an increase of approximately 15% over the same period last year and accounting for 54.56% of the Group's total turnover.

With an aim to formulate O2O smart-media operation platform, apart from having outdoor media dissemination resources of approximately 150,000 square meters, and providing one-stop advertising service covering integrated marketing communication consultation, media publication strategy consultancy, advertising design and production, outdoor mass media dissemination as well as monitoring and evaluation, the Group, through social media first initiated in the PRC, also assists client to effectively consolidate offline channels. Currently, the media owned by the Group is primarily in the forms of social media, outdoor billboards, large LED advertising screens and professional market media, etc.. During the period, the average launching rate of the Group's outdoor media remained at approximately 70%, with major customers from various industries such as fast-moving consumer goods, media, real estates, finance and tourism.

The social media first initiated by the Group in the PRC continued to be well received and supported by customers. During the period, it contributed to the Group a turnover and a profit of approximately RMB39,830,000 (2015: RMB30,780,000) and approximately RMB6,100,000 (2015: RMB6,100,000) respectively. Currently, approximately 8,000 social media targeting 9 million households of medium and high income in nearly 5,500 communities have been set up. The scope of coverage had been extended to cities including Beijing, Shanghai, Guangzhou, Nanjing, Shenzhen, Hangzhou and Shenyang, and contributed a total of approximately 28,000 square meters of outdoor media dissemination resources to the Group. At the same time, due to the high viscosity and high interaction of social media, through continuously creating social soft culture and effective operation, the Group can realise the high accuracy of media and assist clients to effectively consolidate offline channels.

Meanwhile, the social media continued to focus on expansion into sectors including finance, tourism, communication and fast-moving consumer goods. It also maintained its partnerships with various leading domestic and international brands such as China Mobile, China Telecom, New City Real Estate (新城市置業), Construction Bank, China UnionPay, Shenzhen Media Group, Huangshan Travel and Jiuhuashan Scenic Area, etc.

Currently, the Group, in order to establish O2O smart-media operation platform, fully occupied the regions for outdoor media with self-built outdoor media including billboards on expressways, billboards in urban areas and LED screens. The Group owns large full color outdoor LED screens of approximately 1,000 square meters in the prime core business district in Nanjing, so as to provide efficient, flexible and personalized media publication solutions for the customers. Moreover, the Group also integrates the outdoor LED media resources scattered in tier two, three and four cities across China to establish the LED broadcast network.

TERMINAL DISSEMINATION SERVICE

Currently, the Group, with an aim to make use of the abundant internet resources accumulated over the years, built up an ecosphere of "living together, living mutually and re-born (共生、互生、再生)". Thus, the core business of terminal dissemination, apart from including the establishment of terminal SI system, targeted signage system, terminal POP system, terminal props making, large events, exhibition display and commercial display, squarely consolidated the supply chain and cooperation party, fostering the concept of Dahe + platform. The Group recorded a turnover of approximately RMB65,883,000 (2015: RMB54,279,000), representing an increase of approximately 21% over the same period last year and accounting for approximately 42.56% of the Group's total turnover. "Terminal Dissemination" continued to serve our existing customers of well-known offline clients such as Wuzhen Travel, Nike, JDB, COFCO Group, Yihai Kerry, Wal-Mart, CR Vanguard, Li Ning, LEE, KFC, Beiqi Foton Motor Daimler, Samsung, Haohaizi, Kubota, GAP, Orient Securities, etc.. The Group continuously conducted client portfolio upgrade, extended to Internet giant enterprises such as Alibaba, Microsoft, Didi Dache and, with the offline channel advantage of the Group, assisted client to realise online and offline breakthroughs.

Alibaba has planned to invest in RMB10 billion to build new Taobao rural project in the next few years. As the service provider of Alibaba, the Group completed store image design and decoration services for over 4,000 Alibaba Taobao rural project stores and assisted in achieving the recruitment of nearly 20,000 rural strategic partners. The Group was awarded the Best Alibaba Service Provider Partner during the year and became one of the three most excellant service providers serving Alibaba.

During the period, the Group made strategic cooperation with Microsoft and completed the design, development and production of Microsoft tools which have now been applied in numerous experience stores in the country.

The smooth implementation of the projects above created a successful precedent for Dahe becoming the offline channel consolidation operation platform and offline channel construction for other Internet giants.

MEDIA PRODUCTION BUSINESS AND ART TRADING BUSINESS

During the Period under Review, the turnover of the Group's media production business was approximately RMB4,298,000 (2015: RMB17,636,000), representing a decrease of approximately 76% over the same period last year and accounting for approximately 2.78% of the Group's total turnover. The major reason of the drop in turnover of the media production business was due to the disposal of Nanjing Dahe Colour Printing Co., Ltd. (南京大賀彩色印刷有限公司) by the Group, which reduced the amount of the production business.

During the period, the turnover of the Group's art trading was approximately RMB148,000 (2015: RMB1,994,000), representing a decrease of approximately 93% when compared with the same period of last year and accounting for approximately 0.1% of the Group's total turnover.

THE WEBSITE OF "SINA JIANGSU"

The website of "Sina Jiangsu" jointly established by the Group and Sina provided localised news, leisure, entertainment and life-style information to users in Jiangsu with the best services and products of web2.0. The establishment of Sina Jiangsu marked the Group's commencement of Internet operation and enhanced its capacity in Internet dissemination, which optimised the Group's marketing and dissemination industrial chain and formed a Dahe marketing and dissemination chain integrating its businesses such as brand planning, media release, production engineering, public relations, the Internet and new media. These new businesses are expected to lay a solid foundation for the Group's future development.

BUSINESS DEVELOPMENT

During the Period under Review, the Group aimed to build up an O2O Dahe+ ecosphere of "living together, living mutually and re-born (共生、互生、再生)". The Group actively optimized and changed the customer portfolio to achieve transformation of customer type from offline to online and from traditional industries to internet industry and established strategic cooperation with various companies such as Microsoft, Alibaba and Didi Dache. In the coming few years, Alibaba would invest RMB10 billion to establish new Taobao rural project and plan to achieve recruiting 100,000 rural strategic partners. The Group would assist it to complete establishment of offline channels and provide store image design and decorative services to over half of Taobao rural project stores. In response to Didi Dache's future plan to implement marketing strategy based on scenario setting, the Group would, based on the abundant offline channels resources, assist it to perform construction of marketing channels. At the same time, it would complement the expansion strategy of Didi Dache to progressively complete the design and production of the signage and material for Didi Dache project. The Group also coordinated with Meizu's product upgrade strategy and held home product release conferences and brand image promotions. The smooth progress of the above projects will promote the Group to realise the change from single project service to full media consolidation strategic cooperation, and transform from traditional sourcing services to building a "living together, living mutually and re-born (共生、互生、再生)" relationship for the establishment of O2O Dahe+ ecosphere.

AWARDS AND HONOURS

On 9 January 2016, Huang Hongxing, the chief executive officer of the Group, was appointed as the deputy director to the fourth Standing Committee of the Outdoor Advertising Sub-committee of China Advertising Association.

DAHE GROUP

On 28 March 2016, the Group won the grand award of Supplier Partners of Alibaba Group.

In June 2016, the Group was awarded the "Famous Brands of the Service Sector in Jiangsu (江蘇服務業名牌)" by Jiangsu Promotion Commission for Famous Brand Strategy (江蘇省名牌戰略推進委員會).

OUTLOOK

In order to promote the development of the culture industry, the Ministry of Culture of the PRC made proactive planning for the innovative development of the culture industry in order to promote the optimization and upgrading of the structure of culture industry, optimize the development layout of regional culture industry, develop and increase the market size of culture industry, expand and introduce the culture-related spending and encourage and introduce social capital investment in culture industry, all of which will further promote the development of culture industry actively.

Looking forward, the Group will continue to integrate resources and optimize the customer structure, actively expand its business and improve its operation process in order to achieve the transformation of customer type from offline to online and from traditional industries to internet industry. Based on deepening the traditional industry and by making use of long-accumulated offline channel resources, the Group will continuously build up relationships with commercial giants such as Alibaba, Microsoft, Didi Dache and Meizu, etc., formulate platform strategy, develop wider and deeper, and use successful precedents of Internet-channel construction as an entry point to the market, all laying the good foundation of becoming the largest O2O company nationwide in the future.

FINANCIAL REVIEW

TURNOVER

Turnover of the Group for the Period under Review was approximately RMB154,783,000 (2015: RMB147,527,000), increased by approximately 5% when compared with the corresponding period last year.

GROSS PROFIT

During the Period under Review, gross profit margin was approximately 34.2%, decreased by 5.1 percentage points when compared with 39.3% for the corresponding period last year.

DISTRIBUTION COSTS

During the Period under Review, distribution costs increased by 3% when compared with the corresponding period last year.

ADMINISTRATION EXPENSES

During the Period under Review, administrative expenses decreased by 12% when compared with the corresponding period last year.

FINANCE COSTS

During the Period under Review, finance costs were approximately RMB10,453,000 (2015: RMB10,921,000), decreased by 4% when compared with the corresponding period last year.

DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: nil).

FUTURE SIGNIFICANT INVESTMENT PLANS AND EXPECTED SOURCE OF FUNDS

The Group will continue to integrate the existing operations, at the same time identify new business opportunities which may supplement or strengthen the existing operations. As at 30 June 2016, the Group had not set up any specific plans.

WORKING CAPITAL AND FINANCIAL RESOURCES

The Group has adopted a prudent financial management policy and maintained a strong financial status. As at 30 June 2016, net current asset was approximately RMB205,060,000 (31 December 2015: approximately RMB186,710,000).

As at 30 June 2016, bank balances and cash and pledged bank deposit held by the Group amounted to approximately RMB94,350,000 (31 December 2015: RMB117,050,000), all of which were denominated in RMB. Bank borrowings amounted to approximately RMB386,000,000 (31 December 2015: RMB336,500,000) and finance lease payable amounted to approximately RMB11,870,000 (31 December 2015: RMB15,300,000). Net debt-to-adjusted capital ratio was approximately 47.1%, being the percentage of bank loans and finance lease payable less bank balances and cash and pledged bank deposits over total equity attributable to owners of the Company plus net debt of approximately RMB644,390,000 (31 December 2015: RMB563,670,000) (31 December 2015: net debt-to-adjusted capital ratio was approximately 41.6%).

As at 30 June 2016, all of the Group's bank borrowings amounted to RMB386,000,000 (31 December 2015: RMB336,500,000) were repayable within one year. As at 30 June 2016, the Group's bank loans amounted to RMB50,000,000 (31 December 2015: RMB201,500,000) and were arranged at fixed interest rate ranging from 4.35% to 7.5% (31 December 2015: 5.0% to 7.5%%), and the remaining bank loans was arranged at floating interest rate (31 December 2015: 5.4% to 5.6%).

FOREIGN EXCHANGE

As the Group's income and expense were denominated in RMB, there were no foreign exchange risks. Therefore, the Group has not entered into any foreign exchange hedging arrangement to manage the foreign exchange risks.

IMPORTANT INVESTMENT

During the Period under Review, the Group had no important investment.

IMPORTANT ACQUISITION AND DISPOSAL

During the Period under Review, the Group had no important acquisition and disposal.

STAFF

As at 30 June 2016, the Group had about 440 (2015: 510) full-time staff. During the Period under Review, staff cost was approximately RMB19,190,000 (2015: RMB21,280,000). The Group regularly provided training and development programs to the staff. Certain Directors, management and core employees of the Group were invited to participate in the Share Purchase Scheme.

REMUNERATION POLICY

The Group provides competitive salary and benefits to our employees. The amount of remuneration for the Directors or the employees is determined according to their relevant experience, responsibilities, work duties, years of service in the Group and their work performance. The non-monetary benefits are determined by the Board and are provided in the remuneration package of the Directors or the employees. Salary package is reviewed regularly each year.

EMPLOYEES' PENSION SCHEME

According to relevant requirements of the PRC, the Company contributes to various mandatory pension schemes for its employees.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, the bank deposits of the Group of approximately RMB40,000,000 (31 December 2015: RMB50,000,000) were pledged as security for the Group's borrowings.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no material contingent liabilities (31 December 2015: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Group did not purchase, sell or redeem any of the Company's listed securities during the Period under Review.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Except the Share Purchase Scheme, at no time during the period were the Company, its holding company or their respective subsidiaries a party to any arrangements to enable the Directors and supervisors (the "Supervisors") of the Company to acquire benefits by means of acquisition of shares in or debenture of the Company or any other body corporate.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association requiring the Company to issue new shares on a pro rata basis to existing shareholders.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

During the Period under Review, the Company continued to adopt a set of transaction standards in respect of securities transactions by its Directors and Supervisors, which is no less stringent than that stipulated in Rules 5.46 to 5.67 of the GEM Listing Rules. The Company has also made specific inquiries to all its Directors and Supervisors, and is not aware of any violation of the transaction standards and the model code in respect of securities transactions by its Directors or Supervisors as required.

A. INTERESTS OF DIRECTORS, CHIEF EXECUTIVES AND SUPERVISORS

As at 30 June 2016, the interests and short positions of Directors, chief executives and the supervisors of the Company (as if the requirements applicable to Directors under the Securities and Futures Ordinance (the "SFO") were also applicable to the Supervisors) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were that required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the Supervisors is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(i) the Company

Name of Director/ Supervisor	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the issued share capital of the Company
Directors				
He Chaobing	Interest of a controlled corporation *(Note 2)*	393,950,000 Domestic Shares (L)	67.92%	47.46%
Zhang Ge	Beneficial owner	71,800,000 Domestic Shares (L)	12.37%	8.66%
Huang Hongxing	Interest of a controlled corporation *(Note 3 and 4)*	54,050,000 Domestic Shares (L)	9.32%	6.51%
	Interest deemed under sections 317(1) (a) and 318 of the SFO *(Note 5)*	10,200,000 Domestic Shares (L)	1.76%	1.23%
He Lianyi	Beneficial owner	6,400,000 Domestic Shares (L)	1.10%	0.77%
	Beneficial owner and interest deemed under sections 317(1) (a) and 318 of the SFO *(Note 4 and 5)*	57,850,000 Domestic Shares (L)	9.98%	6.97%
Supervisors				
Wang Mingmei	Beneficial owner	3,800,000 Domestic Shares (L)	0.66%	0.46%

Name of Director/ Supervisor	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the issued share capital of the Company
	Beneficial owner and interest deemed under sections 317(1)(a) and 318 of the SFO *(Note 4 and 5)*	60,450,000 Domestic Shares (L)	10.42%	7.28%
Xue Guiyu	Beneficial owner and interest deemed under sections 317(1)(a) and 318 of the SFO *(Note 4 and 5)*	64,250,000 Domestic Shares (L)	11.08%	7.74%

Notes:

1. The letters "L" denote a long position in the share capital.

2. The interests in the domestic shares were held through Dahe Investment Holdings Group Co., Ltd.("DIHG" or "Dahe Investment") which is 99% and 1% owned by Mr. He Chaobing and Ms. Yan Fen, spouse of Mr. He, respectively.

3. The interests in the domestic shares were directly held through Nanjing Shengshi Huacheng Investment Management Joint Enterprise (limited partnership) ("Shengshi Huacheng"). Pursuant to the Share Purchase Scheme adopted by the Company, Shengshi Huacheng is the platform for acquiring, holding or selling the Scheme Shares under the Share Purchase Scheme. Mr. Huang Hongxing is the general partner of Shengshi Huacheng and is deemed to be interested in the shares in which Shengshi Huacheng is interested.

4. As at 30 June 2016, each of Mr. Huang Hongxing, Mr. He Lianyi, Ms. Wang Mingmei and Mr. Xue Guiren held 23.755%, 11.5%, 0.5% and 1%, respectively, of the equity interests in Shengshi Huacheng, and were interested in such Domestic Shares represented by their respective shares in Shengshi Huacheng in the capacity of beneficial owner.

5. Pursuant to sections 317(1) (a) and 318 of the SFO, each partner of Shengshi Huacheng was deemed to be interested in (1) the shares of the Company owned by other partners of Shengshi Huacheng through the shares they held in Shengshi Huacheng; and (2) the shares of the Company owned by other partners of Shengshi Huacheng other than those owned through the shares they held in Shengshi Huacheng. In respect of item (2) above, Mr. Huang Hongxing was deemed to be interested in 6,400,000 and 3,800,000 Domestic Shares directly held by Mr. He Lianyi and Ms. Wang Mingmei; Mr. He Lianyi was deemed to be interested in 3,800,000 Domestic Shares directly held by Ms. Wang Mingmei; Ms. Wang Mingmei was deemed to be interested in 6,400,000 Domestic Shares directly held by Mr. He Lianyi and Mr. Xue Guiyu was deemed to be interested in 6,400,000 and 3,800,000 Domestic Shares respectively and directly held by Mr. He Lianyi and Ms. Wang Mingmei.

(ii) the associated corporations

Name of Director/ Supervisor	Name of the associated corporation	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding in the issued share capital of the associated corporation
He Chaobing	DIHG	Beneficial owner	393,950,000 shares (L)	99%
He Pengjun	Nanjing Ultralon Investment Management Co., Ltd.* (南京歐特龍投資管理有限公司)	Beneficial owner	500,000 shares (L)	10%

Notes:

1. The letters "L" denote a long position in the share capital.

Save as disclosed above, none of the Directors or chief executives of the Company is aware of any other Directors, chief executives or Supervisors of the Company who had any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporation as at 30 June 2016.

B. INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2016, so far as is known to the Directors or chief executives of the Company, the following persons (other than Directors, chief executives and Supervisors of the Company) had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity	Number and class of securities *(Note 1)*	Approximate percentage of shareholding in the relevant class of securities	Approximate percentage of shareholding in the issued share capital of the Company
DIHG	Beneficial owner	393,950,000 Domestic Shares (L)	67.92%	47.46%
Yan Fen	Interest of spouse *(Note 2)*	393,950,000 Domestic Shares (L)	67.92%	47.46%
Partners of Shengshi Huacheng	Beneficial owner and interest deemed under sections 317(1)(a) and 318 of the SFO	64,250,000 Domestic Shares (L) *(Note 3)*	11.08%	7.74%
Wang Qinghua	Beneficial owner	50,000,000 Domestic Shares (L)	8.62%	6.02%

Notes:

1. The letters "L" denote a long position in the shares.

2. Ms. Yan Fen is the wife of Mr. He Chaobing and is deemed to be interested in the shares in which Mr. He is interested under the provision of Divisions 2 and 3 of Part XV of the SFO.

3. The interests in 54,050,000 domestic shares were directly held through Shengshi Huacheng, and Shengshi Huacheng was established by the Eligible Participants of the Share Purchase Scheme with their own capitals as the platform for acquiring, holding or selling the Scheme Shares under the Share Purchase Scheme. As at 30 June 2016, Shengshi Huacheng was held by 46 Eligible Participants (namely Huang Hongxing, Guan Dawei, Zhang Long, Jin Liping, Liu Dehui, Ma Rongfang, Lu Wei, Zhang Jiamei, Yu Lingling, Kan Chao, Chen Weixin, Lu Yin, Ding Hui, Xu Jiongjiong, Tang Baolian, Gu Cheng, Liu Zhihong, Chen Guo, Ju Le, Ding Jianhong, Kong Zhaoli, Xu Rong, Wang Mingmei, Zhang Zhijun, Wang Di, Yang Bo, Tao Jie, Ren Liping, Shen Junyan, Ni Lijia, Bi Yiyun, Wang Jia, Wang Jian, Wang Yanfeng, Gao Huajun, Zhong Lei, Cao Ling, Fan Wenjun, Shang Ling, Hu Li, He Lianyi, Xue Guiyu, Zhu Lianghong, Lu Xiaolin, Li Huizhen and Liu Bin) of the Share Purchase Scheme. In addition to being interested in such Domestic Shares represented by their respective shares in Shengshi Huacheng in the capacity of beneficial owner, pursuant to sections 317(1) (a) and 318 of the SFO, each partner of Shengshi Huacheng was deemed to be interested in (1) the shares of the Company owned by other partners of Shengshi Huacheng through the shares they held in Shengshi Huacheng; and (2) the shares of the Company owned by other partners of Shengshi Huacheng other than those owned through the shares they held in Shengshi Huacheng. In respect of item (2) above, each partner of Shengshi Huacheng was deemed to be interested in 6,400,000 and 3,800,000 Domestic Shares respectively and directly held by Mr. He Lianyi and Ms. Wang Mingmei. As at 30 June 2016, Mr. Huang Hongxing and Mr. He Lianyi were directors of the Company and Ms. Wang Mingmei and Mr. Xue Guiyu were supervisors of the Company, for details of the share interests they held, please refer to the disclosure in "Interests of Directors, Chief Executives and Supervisors" above.

Save as disclosed aboved, as at 30 June 2016, so far as is known to the Directors or chief executives of the Company, no other person (other than Directors, chief executives and Supervisors of the Company) had an interest or a short position in any shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE PURCHASE SCHEME

In order to reward the existing management of the Group for their contributions and to encourage and maintain a long-term service relationship between the Company and the management, on 30 October 2015, the Company adopted the Management Share Purchase Scheme (the "Share Purchase Scheme"). According to the Share Purchase Scheme, Shengshi Huacheng, a limited partnership established for the Share Purchase Scheme and owned by the eligible participants of the Share Purchase Scheme (the "Eligible Participants"), purchased the shares in the Company (the "Scheme Share") from Dahe Investment and Chenwei Ink Factory at a price made with reference to the net asset value per share as set out in the 2014 annual report of the Company, i.e. HK$0.462 per Scheme Share.

The purpose of the Share Purchase Scheme is to allow the Group to share its future value and growth with the Eligible Participants and align the personal interests of the Eligible Participants with those of the Company and its shareholders, which will facilitate the Group's future success and development.

The operation of the Share Purchase Scheme is as follows:

- The Eligible Participants fund the establishment of Shengshi Huacheng with their own capitals as the platform for acquiring, holding and selling the Scheme Shares. Shengshi Huacheng is a limited partnership established by 48 Eligible Participants in accordance with the laws of the PRC and with their own funds in 2015, in order to directly acquire and hold the Scheme Shares. Certain Eligible Participants are the directors or supervisors of the Company and its subsidiaries.
- With the capital contributed by the Eligible Participants, on 25 November 2015, Shengshi Huacheng entered into formal share transfer agreement with Dahe Investment and Chenwei Ink Factory to purchase 24,050,000 Shares and 30,000,000 Shares from Dahe Investment and Chenwei Ink Factory respectively as the Scheme Shares, at a price of HK$0.462 per Scheme Share, representing approximately 6.51% of the total issued share capital of the Company in total.
- After Shengshi Huacheng completed the acquisitions of the Scheme Shares, it becomes the registered holder of the Scheme Shares and holds the Scheme Shares on behalf of its partners (i.e. the Eligible Participants). And the Eligible Participants will indirectly acquire and jointly and beneficially hold the Scheme Shares through directly holding Shengshi Huacheng.
- After the expiration of the lock-up period and subject to the PRC government's policy of restricting the liquidity of the Domestic Shares, upon the approval of the Eligible Participants representing more than two thirds of the capital contributions, each year Shengshi Huacheng can sell freely not more than one third of the Scheme Shares it holds under the Share Purchase Scheme, and the profits arising thereof will be allocated to the Eligible Participants based on their respective shareholdings in Shengshi Huacheng. Shengshi Huacheng will also distribute other dividends and proceeds from the Scheme Shares (if any) to the Eligible Participants from time to time based on their respective shareholdings in Shengshi Huacheng.
- If the Eligible Participants terminate their employment relationship with the Group, the Eligible Participants leaving office shall transfer all the shares they hold in Shengshi Huacheng to other Eligible Participants. In 2016, there were a total of 46 Eligible Participants under the Share Purchase Scheme.

- Shengshi Huacheng is managed by Mr. Huang Hongxing, a general partner. Pursuant to Shengshi Huacheng's partnership contract, the general partner is responsible for managing the daily operations of Shengshi Huacheng, except some material matters (including the sale and transfer of the Scheme Shares held under the Share Purchase Scheme) will be subject to approvals from partners who made more than two thirds of the capital contributions. The Group will not involve in the management and daily operations of Shengshi Huacheng and the management and daily operations of Shengshi Huacheng will be independent of the Group.
- The Scheme Shares will rank pari passu in all respects with all other domestic Shares in issue and with each other and have the same rights, including voting rights and the right to receive dividends.

COMPETING INTEREST

None of the Directors, controlling shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete, either directly or indirectly, with the businesses of the Group nor any conflicts of interest which has or may have with the Group.

CORPORATE GOVERNANCE

During the Period, except for the matters below, none of the Directors of the Company is aware of any information which reasonably indicates that there had been non-compliance with the code provisions as set out in the Code of Corporate Governance (the "Code") as set out in Appendix 15 of the GEM Listing Rules of the Stock Exchange in any time during the accounting period covered under the current report:

1. As Wang Weijie, the former Chief Executive Officer, resigned on 10 December 2007, the post of Chief Executive Officer of the Company was temporarily held by the Chairman, Mr. He Chaobing. On 24 March 2016, the Company separated the posts of Chairman of the Board and Chief Executive Officer and appointed Mr. Huang Hongxing as the Chief Executive Officer. On the same day, the Company re-complied with the relevant provisions of the Code;
2. The Company did not arrange any insurance coverage for the Directors' liabilities in respect of any potential legal actions against the directors. Given the nature of the Group's business, the Directors believe that the possibility of legal actions against the Directors is remote, and the Company still can achieve excellent corporate governance through various management and monitoring mechanism so as to reduce such risks, including periodic review on the effectiveness of internal control system, clear division of duties and providing training for staff and the management. The Board will review, on a regular basis, the necessity to arrange insurance cover for potential legal actions against the Directors; and

3. During the Period under Review, as it takes time to obtain quotation from service providers of internal audit functions, the Company had only been preparing for but yet to complete the establishment of comprehensive internal audit functions. The Company will actively keep up with relevant matters and expects to complete the establishment of internal audit functions in 2016 by engaging external service provider to assist the Company, in order to ensure the effective compliance with the risk management and internal control code provisions of the Code by the Company.

AUDIT COMMITTEE

The Company established an audit committee on 23 October 2003 with written terms of reference made in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process, internal control and risk management systems of the Company. The audit committee comprises three independent non-executive directors, Mr. Xu Haoran, Mr. Ge Jianya and Ms. Ye Jianmei. The audit committee has reviewed this interim report in accordance with the GEM Listing Rules.

By Order of the Board
He Chaobing
Chairman

Nanjing, the PRC
11 August 2016

As at the date of this report, the Board comprises Mr. He Chaobing and Mr. Huang Hongxing, being the executive Directors, Mr. Xu Haoran, Mr. Ge Jianya and Ms. Ye Jianmei, being the independent non-executive Directors, and Mr. He Lianyi, Mr. He Pengjun, Mr. Geng Qiang and Mr. Zhang Ge, being the non-executive Directors.

* *For identification purpose only*