Huan Yue Interactive Holdings Limited
歡悅互娛控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code : 00505

2017
Interim Report

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua
Mr. REN Hao
Mr. ZHU Wenjun

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong

Audit Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong

Remuneration Committee

Dr. LOU Dong *(Chairman)*
Ms. LU Hong
Mr. ZHU Wenjun

Nomination Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong
Dr. LOU Dong
Mr. REN Hao

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Mr. ZHU Wenjun
Ms. MUI Ngar May, Joel

PRINCIPAL LEGAL ADVISORS

P.R.C. & Hong Kong

Zhong Lun Law Firm

Cayman Islands

Conyers Dill & Pearman, Cayman

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Hong Kong

Flat 11, 11/F., Hung Tai Industrial Building
37-39 Hung To Road, Kwun Tong
Kowloon, Hong Kong

PRC (Gaming Business)

No. 8, Yuehai Road
Shenzhen
Guangdong Province
518066, PRC

PRC (Copper Business)

No. 68, Jin Xi Road
Hangzhou Bay New Zone
Ningbo
Zhejiang Province
315336, PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
P.O. Box 705
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Bank of China

COMPANY WEBSITE

www.huanyue.com.hk

STOCK CODE

505

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017 (unaudited)

	Note	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Revenue	4	**2,001,740**	1,492,812
Cost of sales		**(1,769,310)**	(1,279,010)
Gross profit		**232,430**	213,802
Other income		**10,100**	14,119
Distribution expenses		**(25,071)**	(16,787)
Administrative expenses		**(115,253)**	(104,283)
Other expenses		**(406)**	(16,170)
Profit from operations		**101,800**	90,681
Finance income		**18,817**	1,718
Finance costs		**(24,723)**	(23,399)
Net finance costs	5(a)	**(5,906)**	(21,681)
Profit before taxation	5	**95,894**	69,000
Income tax	6	**(20,321)**	(11,558)
Profit for the period		**75,573**	57,442
Attributable to:			
Equity shareholders of the Company		**74,470**	55,339
Non-controlling interests		**1,103**	2,103
Profit for the period		**75,573**	57,442
Earnings per share			
– Basic *(RMB cents)*	7(a)	**9.02**	6.82
– Diluted *(RMB cents)*	7(b)	**9.01**	6.82

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Profit for the period	**75,573**	57,442
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**1,039**	166
Total comprehensive income for the period	**76,612**	57,608
Attributable to:		
Equity shareholders of the Company	**75,509**	55,505
Non-controlling interests	**1,103**	2,103
Total comprehensive income for the period	**76,612**	57,608

Consolidated Statement of Financial Position

As at 30 June 2017 (unaudited)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	8	**1,064,483**	1,098,740
Lease prepayments		**13,661**	13,840
Intangible Assets		**7,032**	8,760
Goodwill		**138,153**	138,153
Deferred tax assets		**22,582**	25,851
Deposits for acquisition of property, plant and equipment		**6,392**	3,647
		1,252,303	1,288,991
Current assets			
Inventories	9	**602,259**	584,416
Trade and other receivables	10	**416,238**	461,103
Derivative financial instruments		**3,281**	4,304
Pledged deposits	11	**109,771**	49,570
Cash and cash equivalents		**213,406**	168,942
		1,344,955	1,268,335
Current liabilities			
Trade and other payables	12	**637,411**	829,592
Interest-bearing borrowings	13	**761,382**	622,271
Derivative financial instruments		**7,494**	4,949
Income tax payable		**15,309**	23,841
		1,421,596	1,480,653
Net current liabilities		**(76,641)**	(212,318)
Total assets less current liabilities		**1,175,662**	1,076,673

Consolidated Statement of Financial Position (Continued)

As at 30 June 2017 (unaudited)

	Note	**At 30 June 2017** *RMB'000*	At 31 December 2016 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings	*13*	**100,000**	80,000
Contingent consideration payable		**30,962**	46,093
Deferred income		**52,932**	49,449
Deferred tax liabilities		**16,586**	15,241
		200,480	190,783
Net assets		**975,182**	885,890
Capital and reserves	*14*		
Share capital		**75,458**	73,687
Reserves		**870,862**	784,444
Total equity attributable to equity shareholders of the Company		**946,320**	858,131
Non-controlling interests		**28,862**	27,759
Total equity		**975,182**	885,890

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017 (unaudited)

	Note	Attributable to equity shareholders of the Company										
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for the Share Award Scheme *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2017		**73,687**	**295,251**	**259,726**	**60,931**	**(17,064)**	**(3,256)**	**–**	**188,856**	**858,131**	**27,759**	**885,890**
Changes in equity for the six months ended 30 June 2017:												
Profit for the period		–	–	–	–	–	–	–	74,470	74,470	1,103	75,573
Other comprehensive income		–	–	–	–	1,039	–	–	–	1,039	–	1,039
Total comprehensive income for the period		–	–	–	–	1,039	–	–	74,470	75,509	1,103	76,612
Treasury shares held for the Share Award Scheme	*16*	–	–	–	–	–	(1,914)	–	–	(1,914)	–	(1,914)
Shares granted under the Share Award Scheme	*16*	–	–	–	–	–	–	247	–	247	–	247
Shares vested under the Share Award Scheme	*16*	–	–	–	–	–	307	(247)	(60)	–	–	–
Issued new shares for contingent consideration		1,771	12,576	–	–	–	–	–	–	14,347	–	14,347
At 30 June 2017		**75,458**	**307,827**	**259,726**	**60,931**	**(16,025)**	**(4,863)**	**–**	**263,266**	**946,320**	**28,862**	**975,182**

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017 (unaudited)

		Attributable to equity shareholders of the Company									
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for the Share Award Scheme *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2016		73,687	295,251	259,726	80,797	(14,874)	–	84,185	778,772	24,303	803,075
Changes in equity for the six months ended 30 June 2016:											
Profit for the period		–	–	–	–	–	–	55,339	55,339	2,103	57,442
Other comprehensive income		–	–	–	–	166	–	–	166	–	166
Total comprehensive income for the period		–	–	–	–	166	–	55,339	55,505	2,103	57,608
Treasury shares held for the Share Award Scheme	*16*	–	–	–	–	–	(920)	–	(920)	–	(920)
Disposal of interest in subsidiaries		–	–	–	(22,866)	–	–	22,866	–	(987)	(987)
At 30 June 2016		73,687	295,251	259,726	57,931	(14,708)	(920)	162,390	833,357	25,419	858,776

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017 (unaudited)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Operating Activities		
Cash (used in)/generated from operations	**(13,492)**	14,690
Tax paid	**(24,239)**	(4,686)
Net cash (used in)/generated from operating activities	**(37,731)**	10,004
Investing Activities		
Payment for the purchase of property, plant and equipment	**(23,377)**	(77,801)
Other cash flows arising from investing activities	**(12,667)**	10,803
Net cash used in investing activities	**(36,044)**	(66,998)
Financing Activities		
Proceeds from borrowings	**848,622**	492,157
Repayment of borrowings	**(666,288)**	(441,551)
Other cash used in financing activities	**(62,894)**	(920)
Net cash generated from financing activities	**119,440**	49,686
Net increase/(decrease) in cash and cash equivalents	**45,665**	(7,308)
Cash and cash equivalents at 1 January	**168,942**	209,915
Effect of movements in exchange rates on cash held	**(1,201)**	806
Cash and cash equivalents at 30 June	**213,406**	203,413

1. REPORTING ENTITY AND BACKGROUND INFORMATION

Huan Yue Interactive Holdings Limited (the "**Company**") was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2007 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 December 2007 (the "**Listing Date**").

The interim financial report as at and for the six months ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**"). The principal activities of the Group are the manufacture and sales of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online games business in August 2016, the Group's activities also include developing, publishing and operating online games and provision of related services.

2. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 25 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

In preparing the interim financial report, the Directors have given careful consideration to the future liquidity of the Group for the twelve months from the end of the reporting period in light of the Group's financial position and substantial capital commitment.

As at 30 June 2017, the Group had net current liabilities of approximately RMB76.6 million. The Group had unutilised banking facilities of RMB737.7 million as at 30 June 2017 that will not expire within 12 months from 30 June 2017. Taking into account the Group's financial position, results of operations and credit history, the Directors considered it is unlikely that the banks will terminate the facilities granted to the Group prior to their expiry and the Directors did not foresee any difficulties for the Group to renew the facilities. Taking into account such, in the opinion of the Directors, the Group will have sufficient working capital for the twelve months after the end of the reporting period and thus it is appropriate to prepare the condensed consolidated interim financial statements on the going concern basis.

3. CHANGE IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in the Company's interim financial report for the six months ended 30 June 2017.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are (i) the manufacture and sales of high precision copper plates and strips, trading of raw materials, provision of processing services; and (ii) developing, publishing and operating online games and provision of related services.

The amount of each significant category of revenue recognised during the interim period is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Copper products related:		
– Sales of high precision copper plates and strips	**1,765,747**	1,397,445
– Processing service fees	**98,791**	70,368
– Trading of raw materials	**123,346**	24,999
	1,987,884	1,492,812
Online games related:		
– Technical service income	**5,380**	–
– Publishing and operating online games	**7,515**	–
– Others	**961**	–
	13,856	–
	2,001,740	1,492,812

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Copper products – this segment carries on the business of manufacturing and selling high precision copper plates and strips products, providing processing services of copper plates and strips products and trading of raw materials.

Online games – this segment carries on the business of developing, publishing and operating online games and providing technical support services.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The measure used for reporting segment profit is profit before taxation. In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue, interest income and expenses related to cash balances and borrowings managed directly by segments, depreciation and amortisation and impairment losses. Change in fair value of contingent consideration payables is not included in the measure of the segments' profit that is used by the senior executive management for assessment of segment performance.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below.

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) ***Segment results*** *(Continued)*

Six months ended 30 June	Copper products		Online games		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Revenue from external customers	**1,987,884**	1,492,812	**13,856**	–	**2,001,740**	1,492,812
Inter-segment revenue	**265**	–	**–**	–	**265**	–
Reportable segment revenue	**1,988,149**	1,492,812	**13,856**	–	**2,002,005**	1,492,812
Reportable segment profit (profit before taxation)	**76,024**	69,000	**4,413**	–	**80,437**	69,000
Interest income from bank deposits	**334**	1,457	**26**	–	**360**	1,457
Net interest expense	**(18,702)**	(15,975)	**–**	–	**(18,702)**	(15,975)
Depreciation and amortisation	**(44,515)**	(33,353)	**(1,765)**	–	**(46,280)**	(33,353)
Impairment of plant and machinery	**–**	(15,116)	**–**	–	**–**	(15,116)

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenue, profit before taxation

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Reportable segment revenues	**2,002,005**	1,492,812
Elimination of inter-segment revenue	**(265)**	–
Consolidated revenue	**2,001,740**	1,492,812
Profit before taxation		
Reportable segment profit	**80,437**	69,000
Other gains or losses:		
– Change in fair value of contingent consideration payables	**15,457**	–
Consolidated profit before taxation	**95,894**	69,000

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
People's Republic of China (the "**PRC**")	**1,672,124**	1,323,670
Others	**329,616**	169,142
	2,001,740	1,492,812

The Group's non-current assets (excluding deferred tax assets) are all located in PRC. The geographical location of the Group's non-current assets (excluding deferred tax assets) is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

5. PROFIT BEFORE TAXATION

Profits before taxation is arrived after charging/(crediting):

(a) Net finance costs

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest income on bank deposits	**360**	1,457
Change in fair value of contingent consideration payables	**15,457**	–
Unrealised gain from foreign exchange forward contracts	**–**	261
Net foreign exchange gain	**3,000**	–
Finance income	**18,817**	1,718
Interest expenses	**(20,531)**	(22,322)
Less: interest expense capitalised*	**1,829**	6,347
Net interest expense recognised in profit or loss	**(18,702)**	(15,975)
Net foreign exchange loss	**–**	(7,424)
Loss from forward exchange contracts and interest rate swap	**(6,021)**	–
Finance costs	**(24,723)**	(23,399)
Net finance costs	**(5,906)**	(21,681)

* The borrowing costs were capitalised at rates of 1.28%-6.88% per annum during the six months ended 30 June 2017 (six months ended 30 June 2016: 1.02%-5.93% per annum).

5. PROFIT BEFORE TAXATION (Continued)

(b) Other items

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories*	**1,765,870**	1,279,010
Research and development expenditure (included in administrative expense)	**74,834**	65,718
Depreciation	**44,373**	33,173
Impairment on property, plant and equipment	**–**	15,116
Amortisation		
– Lease prepayments	**179**	180
– Intangible assets	**1,728**	–
Government grants	**6,332**	3,846

* Cost of inventories includes depreciation of RMB23,804,000 (six months ended 30 June 2016: RMB19,450,000), which is also included in the total amount regarding the said expenses which disclosed separately below.

6. INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax		
Provision for PRC Corporate Income Tax	**15,793**	13,742
Over-provision in respect of prior year	**(86)**	(523)
	15,707	13,219
Deferred tax		
Origination and reversal of temporary differences	**4,614**	(1,661)
	20,321	11,558

The provision for PRC Corporate Income Tax is calculated by applying the estimated annual effective rates of taxation that are expected to be applicable to each entity operating in the PRC.

The Group's consolidated effective tax rate for the six months ended 30 June 2017 was 21% (six months ended 30 June 2016: 17%). The increase in the effective tax rate was mainly due to the expiration of the preferential corporate income tax of one of the Group's major subsidiaries.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB74,470,000 (six months ended 30 June 2016: RMB55,339,000) and the weighted average of 826,025,589 ordinary shares (six months ended 30 June 2016: 810,995,456 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB74,470,000 (six months ended 30 June 2016: RMB55,339,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 826,141,611 ordinary shares (six months ended 30 June 2016: 810,995,456 ordinary shares).

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of plant and machinery with a cost of RMB10,117,000 in total (six months ended 30 June 2016: RMB86,114,000). Items of plant and machinery with a net book value of RMB1,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB1,168,000), resulting in a gain on disposal of RMB10,000 (six months ended 30 June 2016: loss of RMB672,000).

9. INVENTORIES

	At 30 June 2017 ***RMB'000*** **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Raw materials	**117,655**	110,656
Working in progress	**351,102**	381,816
Finished goods	**132,983**	91,425
Others	**519**	519
	602,259	584,416

Provisions of RMB4,199,000 (2016: RMB3,768,000) were made against those inventories with net realisable value lower than their carrying value as at 30 June 2017. Except for the above, none of the inventories as at 30 June 2017 was carried at net realisable value (2016: Nil).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2017 ***RMB'000*** **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Trade and bill receivables	**323,689**	358,093
Deposits for metal future contracts	**1,000**	11,632
VAT recoverable	**77,616**	76,792
Prepayments	**12,555**	12,004
Others	**1,378**	2,582
	416,238	461,103

Credit terms granted to customers ranged from 7 to 90 days depending on the customer's relationship with the Group, its creditworthiness and past settlement records.

As at 30 June 2017, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, with an amount of RMB5,570,000 (2016: RMB11,140,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivables and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

As at 30 June 2017, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 30 June 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB2,861,000 (2016: RMB12,803,000).

10. TRADE AND OTHER RECEIVABLES (Continued)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bill receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Within 3 months	**304,539**	333,285
Over 3 months but less than 6 months	**18,606**	23,949
Over 6 months but less than 1 year	**457**	792
Over 1 year	**87**	67
	323,689	358,093

As at 30 June 2017, the Group's bill receivables with aggregate carrying value of approximately RMB90,506,000 (2016: RMB70,023,000) were pledged to banks for issuance of bank acceptance bills.

(b) Trade and bill receivables that are not impaired

The ageing analysis of trade and bill receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Neither past due nor impaired	**316,732**	350,465
Less than 3 months past due	**6,413**	6,769
Over 3 months past due	**544**	859
	6,957	7,628
	323,689	358,093

10. TRADE AND OTHER RECEIVABLES (Continued)

(b) Trade and bill receivables that are not impaired (Continued)

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. PLEDGED DEPOSITS

Pledged deposits represented guarantee deposits for issuance of commercial bills and short-term banking facilities.

12. TRADE AND OTHER PAYABLES

	At 30 June 2017 *RMB'000* **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Trade and bill payables	**535,843**	652,903
Advances received from customers	**32,251**	37,288
Staff benefits payable	**10,239**	23,225
Payables for purchase of property, plant and equipment	**43,686**	55,839
Cash consideration payable in connection with business combination	**–**	16,638
Contingent share consideration payable	**–**	15,952
Accrued expenses and others	**15,392**	27,747
	637,411	829,592

12. TRADE AND OTHER PAYABLES (Continued)

As of the end of the reporting period, the ageing analysis of trade and bill payables (which are included in trade and other payables), based on the invoice date or issuing date, is as follows:

	At 30 June 2017 ***RMB'000*** **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Within 3 months	**399,896**	473,412
Over 3 months but within 6 months	**47,350**	150,283
Over 6 months but within 1 year	**85,870**	27,037
Over 1 year	**2,727**	2,171
	535,843	652,903

13. INTEREST-BEARING BORROWINGS

At 30 June 2017, the interest-bearing borrowings were repayable based on scheduled repayment dates set out in the loan agreements as follow:

	At 30 June 2017 ***RMB'000*** **(unaudited)**	At 31 December 2016 *RMB'000* (audited)
Current		
Short-term secured bank loans	**510,900**	172,700
Unsecured bank loans	**97,482**	200,803
Bank advances under discounted bills	**22,000**	20,000
Current portion of non-current secured bank loans	**131,000**	228,768
	761,382	622,271
Non-current		
Secured bank loans	**100,000**	80,000
	861,382	702,271

13. INTEREST-BEARING BORROWINGS (Continued)

(i) The Group's long-term bank loans were repayable as follows:

	At 30 June 2017 *RMB'000* (unaudited)	At 31 December 2016 *RMB'000* (audited)
Within 1 year	**131,000**	228,768
Over 1 year but less than 2 years	**40,000**	–
Over 2 years but less than 5 years	**60,000**	80,000
	100,000	80,000
	231,000	308,768

(ii) The Group's interest-bearing borrowings in the amount of RMB303,000,000 (2016: RMB80,000,000) are subject to the fulfilment of financial covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. As at and during the period ended 30 June 2017, none of the covenants relating to drawn down facilities was breached.

(iii) The secured bank loan as at 30 June 2017 bore interest at rates ranging from 1.82% to 6.25% (2016: 1.28% to 6.72%) per annum and were pledged by the following assets:

	At 30 June 2017 *RMB'000* (unaudited)	At 31 December 2016 *RMB'000* (audited)
Carrying amounts of assets:		
Inventories	**255,670**	255,670
Property, plant and equipment	**740,324**	897,591
Lease prepayments	**13,661**	13,840
Pledged bank deposits	**60,980**	–
	1,070,635	1,167,101

(iv) The unsecured bank loans as at 30 June 2017 bore interest at rates ranging from 1.49% to 6.88% (2016: 1.28% to 4.57%) per annum.

14. CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

During the period ended 30 June 2017, no dividend was declared or distributed and the Directors of the Company have determined that no dividend will be paid in respect of the interim period.

(b) Share capital

Authorised

	30 June 2017		**31 December 2016**	
	Number of shares	***Amount HKD'000***	*Number of shares*	*Amount HKD'000*
Ordinary shares of HKD0.1 each	**5,000,000,000**	**500,000**	5,000,000,000	500,000

Ordinary shares issued and fully paid

	30 June 2017			**31 December 2016**		
	Number of shares '000	***Amount HKD'000***	***RMB'000 equivalent***	*Number of shares '000*	*Amount HKD'000*	*RMB'000 equivalent*
At 1 January	**811,116**	**81,111**	**73,687**	811,116	81,111	73,687
Issued new shares for contingent consideration	**19,997**	**2,000**	**1,771**	–	–	–
At 30 June/31 December	**831,113**	**83,111**	**75,458**	811,116	81,111	73,687

(i) On 15 April 2017, 19,996,667 consideration shares of HKD0.10 par value each were duly alloted and issued to Mobilefun Limited pursuant to the sales and purchase agreement dated on 21 June 2016, with the fair value of HKD0.81 per share. The proceeds of HKD2,000,000 (equivalent to RMB1,771,000) representing the par value, were credited to the Company's share capital. The excess of proceeds totalling HKD16,197,000 (equivalent to RMB14,347,000) over the par value of ordinary shares issued were credited to reserves.

15. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 June 2017	**Fair value measurements as at 30 June 2017 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets:				
Derivative financial instruments:				
– Future contracts	**3,281**	**3,281**	**–**	**–**
Liabilities:				
Derivative financial instruments:				
– Future contracts	**(4,264)**	**(4,264)**	**–**	**–**
– Foreign exchange forward contracts	**(3,230)**	**(3,230)**	**–**	**–**
Contingent consideration payable	**(30,962)**	**–**	**–**	**(30,962)**

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Foreign exchange forward contracts	2,843	2,843	–	–
– Future contracts	1,461	1,461	–	–
Liabilities:				
Derivative financial instruments:				
– Future contracts	(4,898)	(4,898)	–	–
– Interest rate swap	(51)	(51)	–	–
Contingent consideration payable				
– Current	(15,952)	–	–	(15,952)
– Non-current	(46,093)	–	–	(46,093)

15. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at the end of reporting period.

16. SHARE AWARD SCHEME

On 18 April 2016 (the "**Adoption Date**"), the Company adopted a share award scheme (the "**Share Award Scheme**"), which does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, to recognise and reward the contribution of eligible employees to the growth and development of the Group through an award of the Company's shares.

The Company appointed a trustee for administration of the Share Award Scheme (the "**Trustee**"). The principal activity of the Trustee is administrating and holding the Company's shares for the Share Award Scheme for the benefit of the Company's eligible employees. Pursuant to the Share Award Scheme, the Company's shares will be purchased by the Trustee in the market out of cash contributed by the Company and held in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of the Company's shares held by the Trustee under the Share Award Scheme will not exceed 20% of the total issued shares of the Company as at the Adoption Date.

As at 30 June 2017, the Trustee had purchased 6,744,000 shares of the Company at a total cost (including related transaction costs) of RMB5,170,000.

According to the Resolution of the Administration Committee on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group which will vest within three years. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) is determined by reference to the closing price of the Company's ordinary shares on 26 May 2017. 400,000 awarded shares have been vested on 15 June 2017.

(i) Details of the shares held under the Share Award Scheme are set out below:

	2017			2016		
	Average purchase price *HK$*	**No. of shares held**	**Value** *RMB'000*	Average purchase price *HK$*	No. of shares held	Value *RMB'000*
At 1 January	**0.92**	**4,021,000**	**3,256**	–	–	–
Shares purchased during the period/year	**0.79**	**2,723,000**	**1,914**	0.92	4,021,000	3,256
Shares granted to an employee and vested during the period/year	**–**	**(400,000)**	**(307)**	–	–	–
At 30 June/31 December	**0.87**	**6,344,000**	**4,863**	0.92	4,021,000	3,256

17. CAPITAL COMMITMENTS

Capital commitments in respect of acquisition of property, plant and equipment at the end of reporting period not provided for in the interim financial report were as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Contracted for	**9,597**	8,122
	9,597	8,122

18. OPERATING LEASE COMMITMENTS

Non-concellable operating lease rentals in respect of staff dormitory and office building were payable as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Less than 1 year	**1,582**	1,699
Over 1 year but less than 5 years	**246**	1,173
	1,828	2,872

19. KEY MANAGEMENT PERSONNEL REMUNERATIONS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Group. The key management personnel remunerations are as follows:

	Six months ended 30 June 2017 *RMB'000*	2016 *RMB'000*
Short-term benefits	**1,860**	1,694
Post-employment benefits	**13**	21
	1,873	1,715

BUSINESS REVIEW

During the interim period of 2017, the Group's revenue amounted to RMB2,001.7 million, representing an increase of 34.1% over the corresponding period of last year, mainly due to the increase in sales volume of the copper plates and strips business and copper price. The Group's profit attributable to the shareholders increased by 34.7% from RMB55.3 million in the first half of 2016 to RMB74.5 million, mainly due to the decrease in the contingent consideration payable arising from the acquisition of the game business by the Group due to the fact that the share price of the Group on 30 June 2017 was lower than the consideration share price to be issued to Mobilefun Limited associated with the acquisition of Funnytime Limited, thus reducing the net finance costs by RMB15.5 million.

In August 2016, the Group completed the acquisition of Funnytime Limited ("**Funnytime**"), which mainly engages in the development, distribution and operation of internet and mobile gaming products through its wholly-owned subsidiary Soul Dargon Limited and a domestic company Hefei Zhangyue Network Technology Co., Ltd. ("**Zhangyue**") controlled through contractual agreements.

Funnytime realised total revenue of RMB34.4 million and net profit of RMB17.4 million for the year ended 31 December 2016. Adjusted net profit (as defined in the sale and purchase agreement dated 21 June 2016 in relation to the acquisition of Funnytime by the Company (the "Sale and Purchase Agreement")) of RMB19.2 million for year 2016 achieved the performance target stipulated in the Sale and Purchase Agreement. Funnytime was consolidated into the Group's financial statements from the acquisition date, with net profit of RMB6.2 million from the acquisition date to 31 December 2016.

Online Game Business

Market review

According to "2017 January to June China Game Industry Report", from January to June 2017, the number of game players in the PRC amounted to 507 million, up by 3.6% year-on-year. The number of client-terminal game players, web game players and mobile game players in the PRC reached 136 million, 247 million and 435 million, respectively.

Industry review

From January to June 2017, the sales revenue of the PRC's game market maintained a high growth rate to RMB99.78 billion, up by 26.7% year-on-year. The PRC's game industry is growing larger in overall scale with more and more better quality game introduced to the market. The game industry made a sizable contribution to the internet industry and the content industry. High quality games have become the key element to market success, and are increasingly recognised by the market. In addition, game players' ability to appreciate high quality games has enhanced. All these factors indicate that high quality game strategy is becoming increasingly important for all game companies.

Management Discussion and Analysis

Business review

In 2017, the Group has further optimized its strategic development landscape for game business. Hefei Zhangyue Network Technology Co., Ltd. ("**Zhangyue**"), the domestic operating subsidiary of the Group's game business, has identified three business lines: web games, mobile games and leisure competitive games, and established the development strategy of focusing on high quality web games, development of mobile game platform and scale-up of leisure competitive games. Meanwhile, Zhangyue paid close attention to emerging game selections such as H5 games (web games on mobile devices) and gave consideration to both user base and short-term yield, aiming to build a solid foundation for Zhangyue's long-term development.

Game operation: in the first half of 2017, leisure competitive products entered the Tencent QQ Game Hall ("**QQ Game Hall**") successively, among which "Bosozoku" (《暴走裝甲》), a kind of vehicle shooting products, was launched with 700,000 registered users per month since early June 2017. Currently, the "Bosozoku" is under promotion and expected to record a significant growth in terms of user base in the second half of the year. "Happy Racing" (《開心賽車》), a racing product, has passed the QQ Game Hall testing and will be officially launched for promotion in August 2017, which is the second core product of Zhangyue's competitive game strategy. As for traditional web games, the "Heart of the Overlord" (《霸王之心》), a new ARPG product, has been launched on Tencent platform and other game platforms. The "New Scions of Fate" (《新熱血江湖傳》) and the "Train Your Dragon" (《少年馴龍記》) will be tested in the QQ Game Hall in August and September of this year. The "Immortal Heroes" (《傳世英雄》), a product of the new H5 game, is expected to go online on the Tencent Wanba (騰訊玩吧) platform in July, while the "Scions of Fate H5" (《熱血江湖H5》) will enter the Tencent Wanba for promotion in the second half of 2017. The management of Zhangyue believes that through the efforts of all Zhangyue's employees and the product layout actively established in the first half of the year, leisure competitive game products will continuously gain Tencent web game platform resources and rapidly accumulate daily active users (DAU). The new ARPG products are also expected to deliver high income in the second half of 2017. Breakthroughs have been made in the new H5 game business, serving as a new growth driver in the future.

Research and development ("R&D") of games: in the first half of 2017, the R&D line of the gaming business successfully launched the English version of "the Gods" (《眾神大陸》), a web game, in the US and Europe and the Russian version in Russia, both of which made certain achievements. Zhangyue also launched the "Martial Peak" (《武煉巔峰》), a web game, in cooperation with over 50 excellent game operating platforms at both home and abroad. Besides, Zhangyue plans to launch the traditional Chinese version of the game in Hong Kong, Macao and Taiwan in the second half of the year. The "Chaos Storm" (《混沌風暴》), a mobile game product, has been launched on Apple's app store after two rounds of player test runs, and its English version will be released worldwide in the second half of the year. The R&D business line keeps exploring diversified businesses, including game art solutions, game product customization, and the overall solution to game applications, etc.

In addition, Zhangyue has been actively looking for opportunities to work with top-notch intellectual property ("**IP**") products so as to drive the rapid progress of the Group's game business.

In the first half of 2017, Funnytime Limited ("**Funnytime**") alone, the Group's game business, realised a total revenue of RMB13.9 million; a net profit of RMB4.7 million and an adjusted net profit (as defined in Sale and Purchase Agreement) of RMB5.3 million.

Outlook

In the second half of 2017, Zhangyue will continue to focus on deploying high quality products, segmented products and global distribution of game products, and strive to gain access to top IP products. The management of the Group expects its game business to become a fast growing business unit within the Group, and to create more value for the Group's shareholders.

Copper Plates and Strips Business

Market and industry review

In the first half of 2017, as the results of European and American elections became clear, uncertainties in global economy faded away. Rising US Dollar interest rates and deleveraging became the themes of global macro economy. As for the PRC's economy, the PRC government continued to vigorously promote the economic restructuring and supply-side reform. Currently, the PRC's economy is going through a phase of "slow growth, restructuring and financial stabilization".

During the reporting period, prices of nonferrous metals were relatively stable with fluctuations in a tight range. Against the backdrop of improved performance in nonferrous metals industry and relatively balanced market supply and demand, prices of nonferrous metals are expected to grow steadily and moderately in the second half of 2017.

Business review

In the first half of 2017, the Group's operating subsidiary for copper plates and strips business, Ningbo Xingye Shengtai Group Ltd. ("**Xingye Shengtai**"), formed its new management team and formulated its operating guidelines for the year of 2017, confirming that 2017 would be the foundation year for the enterprise's secondary transformation and upgrading.

During the reporting period, under the guidance of the new management team, together with the joint efforts of all the staff, the Group's copper plates and strips realized an output of 59,998 tons and sales volume of 60,286 tons, both hitting a record high over the same period of prior years. In the first half of the year, sales revenue of the Group's copper plates and strips business achieved RMB1,987.9 million, representing an increase of 33.2% as compared to that of the corresponding period of 2016, among which, revenue from the sale of copper products amounted to RMB1,765.7 million, revenue from copper processing business RMB98.8 million and revenue of trading RMB123.4 million, up by 26.4%, 40.3% and 393.6%, respectively. In the first half of the year, the copper business realised an operating profit before taxation (profit before taxation excluding the change in fair value of the contingent consideration payable and the impairment of plant and equipment) of RMB76.0 million, which decreased by 9.6% as compared to that of the corresponding period of last year, mainly due to a significant decrease in orders of a type of high value-added products launched in 2016 during the reporting period, thus resulting in a fall in gross profit and operating profit as compared to that of the corresponding period of last year, despite a significant increase in the sales volume of other products of the copper plates and strips business.

Business development

According to the operating guidelines of 2017, the Group's operating subsidiaries of the copper plates and strips business carried out the following work:

Strengthen the foundations for enterprise development: following the stage of "big investment, great technical renovation", the Group's copper plates and strips business has entered into a period of transformation, upgrading and building solid foundations. To this end, Xingye Shengtai has taken a series of actions to deleverage, cut inventory and obsolete capacity, and reduce costs.

Pursue transformation and upgrading to ensure sound development: Xingye Shengtai carried out refined management, deepened product technology innovation and intensified the integration of industrialization with information technologies. MES (Manufacturing Execution System) has been continuously improved to lay a sound foundation for full operation. In the first half of the year, Xingye Shengtai introduced the full fledged second phase of TPM (Total Productive Maintenance) management, aimed to enhance its management and technical level. Xingye Shengtai focused on the trial production of hot-dip tinning line, and the products of the hot-dip tinning line were well recognized by well-known enterprises and were expected to gain their technical access.

Outlook

Looking ahead to the second half of the year, the management team of the Group's copper plates and strips manufacturing business believes that, with the efforts of all employees, more stable development will be achieved in the second half of the year to generate returns for the Group's shareholders.

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded total sales revenue of RMB2,001.7 million in the reporting period, which increased by 34.1% as compared with that of the corresponding period of last year. The increase in sales revenue of the Group's copper business was mainly due to an increase in sales volume of copper products and copper price.

The Group's copper business achieved a total revenue of RMB1,987.9 million for the six months ended 30 June 2017, representing an increase of 33.2% compared to RMB1,492.8 million of the corresponding period in 2016. Revenue generated from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials amounted to RMB1,765.7 million, RMB98.8 million and RMB123.4 million respectively (for the six months ended 30 June 2016: RMB1,397.4 million, RMB70.4 million and RMB25.0 million respectively). For the six months ended 30 June 2017, 88.8%, 5.0% and 6.2% of total revenue was derived from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials respectively (for the six months ended 30 June 2016: 93.6%, 4.7% and 1.7% respectively). The sales volume of high precision copper plates and strips, provision of processing services and trading of raw material were 41,466 tons, 18,820 tons and 4,383 tons respectively, making 64.1%, 29.1% and 6.8% of the total.

The Group's online gaming business achieved revenue of RMB13.9 million for the six months ended 30 June 2017, representing 0.7% of the total revenue (for the six months ended 30 June 2016: Nil).

The overall gross margin of the Group's copper business for the period under review decreased to 11.2% from 14.3% of the corresponding period in 2016, which was mainly due to the sales volume decrease of copper products with higher gross margin.

Other income

During the six months ended 30 June 2017, the Group's other income amounted to RMB10.1 million in total, representing a decrease of 28.4% compared to RMB14.1 million of the corresponding period of last year, which was mainly attributable to a decrease of gain on metal future contracts of RMB6.0 million.

Other expenses

For the six months ended 30 June 2017, the Group recorded RMB0.4 million in other expenses, while recording other expenses of RMB16.2 million for the corresponding period of last year. Such decrease was mainly due to the impairment loss of property, plant and equipment of RMB15.1 million in the corresponding period of last year.

Distribution expenses

For the six months ended 30 June 2017, the ratio of distribution expenses to revenue rose to 1.25% as compared to 1.12% of the corresponding period of last year, which was comparable as that of the corresponding period of 2016.

Administrative expenses

For the six months ended 30 June 2017, the Group's administrative expenses increased by 10.5% to RMB115.3 million from RMB104.3 million in the same period of last year, which was attributable to an increase in research and development expenses by RMB9.1 million to RMB74.8 million from RMB65.7 million of the corresponding period of last year.

Net finance costs

The Group's net finance costs for the six months ended 30 June 2017 amounted to RMB5.9 million, representing an decrease of 72.8% compared to that of RMB21.7 million of the corresponding period of last year, which was mainly due to the gain of RMB15.5 million from change in fair value of contingent consideration payables for the six months ended 30 June 2017. The change in fair value of the contingent consideration payables is mainly due to the fact that the share price of the Group as at 30 June 2017 was lower than the acquisition date price of the consideration shares to be issued to Mobilefun Limited associated with the acquisition of Funnytime completed in August 2016.

Income tax

For the six months ended 30 June 2017, the Group's income tax expenses was RMB20.3 million (corresponding period of last year: RMB11.6 million). The Group's consolidated effective tax rate for the six months ended 30 June 2017 was 21% (six months ended 30 June 2016: 17%). The increase on the effective tax rate was mainly because the preferential tax rate of Xingye Shengtai expired since 2017.

Profit attributable to the shareholders of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2017 amounted to RMB74.5 million, representing an increase of RMB19.2 million compared to that of RMB55.3 million of the corresponding period of last year. The increase is mainly due to the financial gain of RMB15.5 million from change in fair value of contingent consideration payables for the six months ended 30 June 2017.

Liquidity financial resources and capital structure

As at 30 June 2017, the Group recorded net current liabilities of RMB76.6 million, which was primarily due to capital expenditure made in current period under review being largely financed by short-term bank borrowings. Capital expenditures are used to purchase manufacturing equipment, land and buildings according to the development plan of the Group.

As a percentage of total interest-bearing borrowings, the short-term interest-bearing borrowings represented 88.4% as at 30 June 2017. As at the date of this interim report, the Group had not experienced any difficulty in raising funds by securing and rolling over the short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

Despite the net current liabilities as at 30 June 2017, owing to the Group's ability to generate cash from operating activities, good credit standing and relationships with principal lending banks and available unutilised banking facilities of RMB737.7 million that will not expire within 12 months from 30 June 2017 (including long term loan facilities amounted to RMB369.6 million effective until 2020) and cash at banks of RMB323.2 million (comprised pledged deposits of RMB109.8 million and cash and cash equivalents of RMB213.4 million) respectively. Based on the previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over the existing short-term bank borrowings upon maturity in the coming year. The Board is confident that the Group has adequate financial resources to sustain its working capital requirement and meet its foreseeable debt repayment requirements.

As at 30 June 2017, the Group had outstanding bank loans of approximately RMB861.4 million, of which RMB761.4 million shall be repaid within 1 year. As at 30 June 2017, 86.1% of the Group's debts was on secured basis.

The gearing ratio as at 30 June 2017 was 40.6% (31 December 2016: 38.3%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

Charge on assets

As at 30 June 2017, the Group pledged assets with an aggregate carrying value of approximately RMB1,070.6 million (31 December 2016: RMB1,167.1 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2017, the Group has invested approximately RMB23.4 million for purchase of property, plant and equipment. These capital expenditures were financed by bank borrowings.

Capital commitments

As at 30 June 2017, the Group had contracted but not provided for future capital expenditures amounting to RMB9.6 million.

Contingent liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities.

MARKET RISK

The Group is exposed to various types of market risks, including price risk, interest rate risk and foreign exchange risk.

Price risk

The Group is exposed to raw material price fluctuations. Cathode copper, alloy trimmings, zinc, tin, nickel and other metals are the principal raw materials used in the production of the Group's products. The Group had made such purchases at market prices. In addition, sales of all products of the Group were according to market price, which might fluctuate and were beyond our control. Therefore, fluctuations in the prices of raw materials may have an adverse effect on the results of the Group's operations.

The Group uses its Shanghai Futures Exchange and London Metal Exchange copper futures contracts to hedge against fluctuations in copper price. The Group recorded a gain on futures contracts of approximately RMB1.5 million for the six months ended 30 June 2017, which was approximately RMB7.5 million in the corresponding period of last year.

Interest rate risk

In addition to short-term deposits, the Group has no significant interest-bearing assets. Therefore, the Group's income and operating cash flows are, to a large extent, independent of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on bank borrowings. The Group's exposure to debt is used for general corporate purposes, including capital expenditures and working capital needs. The Group's bank borrowings bear interest rates that are subject to adjustment by lenders in accordance with changes of the relevant regulations of the People's Bank of China ("**PBOC**"). The Group's financing costs will increase when the PBOC raises interest rates. Fluctuations in interest rates will affect the cost of undertaking new debts. The Group had not entered any interest rate swap to hedge against exposure to interest rate risk.

Foreign exchange risk

The Group's export sales and certain part of the purchase of raw materials were denominated in foreign currencies, primarily U.S. dollars. Therefore, fluctuations in the exchange rate may have an impact on the Group's operating results. The Group has entered into foreign exchange forward contracts with local banks to hedge against foreign exchange rate risk. For the period under review, the Group had recorded a net foreign exchange gain of RMB3.0 million while recording a net loss of RMB7.4 million for the corresponding period in 2016.

EMPLOYEES

As at 30 June 2017, the total number of the Group's employees was 1,212 (31 December 2016: 1,282). Remuneration policies are reviewed periodically to ensure that the Group is offering competitive employment packages to our employees. The employees' benefits include salaries, pensions, medical insurance scheme and other applicable social insurance. During the reporting period, the total remuneration paid to employees was RMB56.4 million (for the year ended 2016: RMB 129.9 million). Promotion and salary increments are assessed in accordance with performance. The Group's business growth depends on its employees' skills and contributions. The Group believes in the important position of human resources in a highly competitive industry and has devoted resources for training its employees. Besides, share options may be granted and shares may be awarded to eligible employees of the Group respectively in accordance with the terms of share option scheme adopted by the Company and share award scheme adopted by the Board. The Group has established an annual training program for our new employees so that the new employees can master the basic skills required to perform their duties, and existing employees can enhance or upgrade their skills.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the directors ("**Directors**") and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**"), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), were as follows:

Interest in Long Position in Shares of HK$0.10 each of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding *(Note 1)*
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 *(Note 2)*	–	31.91%
HU Minglie	Beneficial owner/personal Interest	1,345,000	–	0.16%
REN Hao	Interest of a controlled corporation/ corporate interest	19,996,667 *(Note 3)*	57,781,111 *(Note 3)*	9.36%
CHEN Jianhua	Beneficial owner/personal Interest	1,480,000	–	0.18%
CHAI Chaoming	Beneficial owner/personal Interest	134,000	–	0.02%
LU Hong	Beneficial owner/personal Interest	200,000	–	0.02%

Notes:

1. The percentages are calculated based on the total issued shares of 831,112,617 as at 30 June 2017.

2. These 265,200,000 shares were held by Luckie Strike Limited and Come Fortune International Limited which was wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust which was founded by Mr. HU Changyuan. Mr. HU was deemed to be interested in these shares by virtue of the SFO.

3. These 19,996,667 shares and 57,781,111 underlying shares are held by Mobilefun Limited ("**Mobilefun**") which in turn is 42% controlled by Mr. Ren Hao. Accordingly, Mr. Ren Hao is deemed to have interest in 19,996,667 shares and 57,781,111 underlying shares of the Company held by Mobilefun under the SFO. Details of the underlying shares held by Mobilefun are set out in the section hereinafter headed "Substantial Shareholders" in this report.

Save as disclosed above, as at 30 June 2017, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the 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 were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 1 December 2007 (the "**2007 Share Option Scheme**") which was terminated by shareholders at the extraordinary general meeting of the Company held on 27 May 2016. No further options should thereafter be granted under the 2007 Share Option Scheme. Details of 2007 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2015.

A new share option scheme had been adopted by shareholders at the extraordinary general meeting of the Company held on 27 May 2016 (the "**2016 Share Option Scheme**").

The principal terms of the 2016 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2016.

During the period under review, no options were granted, exercised, lapsed, cancelled or outstanding under the 2016 Share Option Scheme.

SHARE AWARD SCHEME

As announced by the Company on 18 April 2016, the Board resolved to adopt a share award scheme (the "Share Award Scheme") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Share Award Scheme during its term is limited to 20% of the total issued shares of the Company as at the Adoption Date. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 5% of the total issued shares of the Company as at the Adoption Date. Pursuant to the Share Award Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Share Award Scheme before vesting. The Share Award Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

As announced by the Company on 5 May 2016, the maximum number of new shares to be issued by the Company in respect of any financial year of the Company for satisfying the Awarded Shares granted under the Share Award Scheme will be limited to 2% (i.e. 16,222,319 shares) of the total issued shares of the Company as at the Adoption Date. The maximum number of new shares to be issued by the Company in respect of any 12-month period for satisfying the Awarded Shares granted to any one Selected Employee under the Share Award Scheme will not exceed 1% (i.e. 8,111,159 shares) of the total issued shares of the Company as at the Adoption Date.

Since the Adoption Date and up to 30 June 2017, no new shares had been subscribed by the Trustee and a total of 6,744,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme at a total cost (including related transaction costs) of RMB5,170,000.

Other Information

According to the Resolution of the Administration Committee on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group which will vest within three years. The fair value on grant date represented HKD0.7 per share (equivalent to approximately RMB0.62 per share) which was determined by reference to the closing price of the Company's ordinary shares on 26 May 2017. 400,000 awarded shares have been vested on 15 June 2017.

Unless otherwise defined in this section, the capitalized terms used in this section shall have the same meanings as those defined in the announcements made by the Company on 18 April 2016 and 5 May 2016 relating to the Share Award Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following persons or corporations (other than the directors' interests disclosed in the section headed "**Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debenture**") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Number of Underlying Shares	Approximate percentage of shareholding *(Note 1)*
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	13.24%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	18.67%
Dynamic Empire Holdings Limited *(Note 2)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra Trust Company (Singapore) Limited *(Note 2)*	Trustee (other than a bare trustee)/Other Interest	265,200,000 (L)	–	31.91%
Zedra Malta Limited *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra Holding SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Yu Yuesu *(Note 4)*	Interest of spouse/Family interest	265,200,000 (L)	–	31.91%
Mobilefun Limited *(Note 5)*	Beneficial owner/Beneficial interest	19,996,667 (L)	57,781,111 (L)	9.36%

The letter "S" denotes a short position in the share

The letter "L" denotes a long position in the share

Notes:

1. The percentages are calculated based on the total issued shares of 831,112,617 as at 30 June 2017.

2. The shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust, the trustee of which was Zedra Trust Company (Singapore) Limited (formerly known as Barclays Wealth Trustees (Singapore) Limited). Dynamic Empire Holdings Limited was deemed to be interested in all the shares in which each of Luckie Strike Limited and Come Fortune International Limited was interested by virtue of the SFO. Zedra Trust Company (Singapore) Limited was deemed to be interested in all the shares in which Dynamic Empire Holdings Limited was interested by virtue of the SFO. The shares registered in the name of Luckie Strike Limited and Come Fortune International Limited were also disclosed as the interest of Mr. HU Changyuan in the section headed "Directors' and chief executive's interests in shares, underlying shares and debentures" above.

3. Zedra SA, through its 100% controlled corporations (including Zedra Holding SA and Zedra Malta Limited), was interested in 265,200,000 shares which were deemed to be interested by Zedra Trust Company (Singapore) Limited (formerly known as Barclays Wealth Trustees (Singapore) Limited) as trustee. Zedra Trust Company (Singapore) Limited was indirectly wholly owned by Zedra SA. Each of Zedra SA, Zedra Holding SA and Zedra Malta Limited was deemed to be interested in all the shares in which Zedra Trust Company (Singapore) Limited were deemed to be interested by virtue of the SFO.

4. Ms. Yu Yuesu was deemed to be interested in these shares under the SFO by virtue of being the spouse of Mr. HU Changyuan.

5. Pursuant to the sale and purchase agreement dated 21 June 2016 entered into between a subsidiary of the Company, Mobilefun Limited ("**Mobilefun**"), Mr. Ren Hao, an executive Director, and others in relation to the acquisition of entire share capital in Funnytime Limited (the "**Acquisition**") involving the issue of 77,777,778 consideration shares. The Acquisition had been completed on 5 August 2016 and the 77,777,778 potential shares which will be issuable to Mobilefun in accordance with the schedule set out in the announcement of the Company dated 21 June 2016 (the "**Schedule**"). Details of the Acquisition and the said consideration shares are set out in the announcements of the Company dated 21 June 2016 and 5 August 2016. On 15 April 2017, 19,996,667 consideration shares were duly alloted and issued to Mobilefun. The remaining 57,781,111 potential shares will be issuable to Mobilefun pursuant to the Schedule. The shares and underlying shares held by Mobilefun were also disclosed as the interest of Mr. Ren Hao in the section headed "Directors' and chief executive's interests in shares, underlying shares and debentures" above.

Save as disclosed herein, as at 30 June 2017, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company as disclosed above, who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than disclosed above under the paragraphs headed "Share Option Scheme" and "Share Award Scheme", at no time during the period under review were the Company or its subsidiaries parties to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the review of the interim results and the interim report for the period under review prepared in accordance with the IAS 34.

Other Information

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the period under review.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and deed of settlement of the Share Award Scheme, purchased on the Stock Exchange a total of 2,723,000 shares of the Company at an aggregate consideration of about RMB1,914,000.

INTERIM DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

To the best of directors' knowledge, there is no change of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the disclosure made in the annual report of the Company for the year ended 31 December 2016 up to the date of this interim report.

By Order of the Board
Huan Yue Interactive Holdings Limited
HU Minglie
Chief Executive Officer and Executive Director

Hong Kong, 25 August 2017