承兴国际控股有限公司

Camsing International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2662)

2017/18

Interim Report

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MANAGEMENT DISCUSSION & ANALYSIS

Overall Results

Committed to becoming China's leading pan-entertainment intellectual property ("IP") operator, the Group strives to develop a complete IP value chain from the downstream to the upstream. In the second half of 2017, the Group's revenue generated from its pan-entertainment business recorded strong growth, resulting in substantial improvement in its revenue quality and gross margin.

For the six months ended 31 December 2017 (the "Period"), the Group's unaudited revenue amounted to approximately HK$1,433.5 million, representing a 7.6% decrease from the previous period. Of which, revenue from pan-entertainment business reached approximately HK$65.6 million (six months ended 31 December 2016: nil), and its share of total revenue reached 4.6%. For the Period, revenue from sales and distribution of electronic products (including IP derivative electronic products) amounted to approximately HK$1,063.6 million (six months ended 31 December 2016: HK$1,236.0 million) and from electronics manufacturing service approximately HK$304.3 million (six months ended 31 December 2016: HK$316.0 million).

The Group recorded a gross profit of approximately HK$79.0 million for the Period, an increase of 68.7% compared with the previous period, and gross margin rose to 5.5% from 3.0% of the previous period. For the Period, net profit amounted to approximately HK$44.4 million, an increase of 22.9% compared with the previous period. If excluding non-operating item of Other Gains and Losses, net profit would reach approximately HK$41.6 million, representing an increase of 255.6% from the previous period.

Business Review

Pan-Entertainment Business

The Group's pan-entertainment business extended its momentum in the first half of 2017 and made new progress and break-through in the second half in the areas of proprietary IP, IP licensing and sales of IP derivative products.

In May 2017, the Group announced the acquisition of Pow! Entertainment Inc. ("POW! Entertainment"), a company founded by Mr. Stan Lee, and completed the acquisition in October 2017. Currently POW! Entertainment has hundreds of IPs which are in operation or under development. Those resources have injected new energy into the Group's proprietary IP and opened a new chapter for the Group's proprietary IP business.

Following the acquisition, the Group has carried out a series of IP licensing and operation activities, including the successful authorization of a number of POW's Entertainment's IPs to downstream IP operators in China. Those activities have not only grown the Group's high quality revenue, but also greatly enhanced the Group's deployment in the areas of film and animation.

The second half of 2017 has also witnessed key initiatives by the Group in sales of IP derivative products. On the one hand, the brand of "CAMSING" was launched specifically for sales of IP derivative products; on the other hand, to supplement existing strong "B to B" distribution channel, retail channel has also been utilized to promote rapid development in sales of IP derivative products.

With regard to sports operation, Football Mania, the reality show jointly produced by the Group, Guangdong Satellite Television and Manchester City Football Club, completed successfully in July 2017. The show was granted "Top Ten Branding Cases" by the 13^{th} Golden Elephant Award of China Brand, laying out a good start for the Group's proprietary sports IP.

MANAGEMENT DISCUSSION & ANALYSIS

Meanwhile, the CVB Snooker Challenge, organized by the Group, was successfully held in July 2017. John Higgins International Snooker Center, the first project of the Group's Camsing Champions Camp program, was also established in August, a key step to develop a professional training platform for sports fans by partnering with global leading sports stars. In addition, Run Cartoon Run, a family run event organized by the Group through licensing well-known cartoon IPs and partnering with high-end automobile vendors, were carried out further in China's 14 different cities in the second half of 2017.

With regard to marketing service, the Group signed the cooperation agreements with two leading global credit card companies – VISA and MasterCard in the second half of 2017. Under the agreements, the Group will provide VISA and MasterCard a series of credit card marketing services in China, including credit card design, marketing planning, product planning, brand licensing, etc., creating a new source of business growth for the Group.

The Group continues to enhance its long-term partnership with key industry and corporate customers so as to develop effective and stable distribution channel for the Group. In the second half of 2017, the Group's electronic products distribution business remained stable and continues to play a key role in supporting the development of the Group's main business.

Electronics Manufacturing Business (EMS)

In the second half of 2017, the overall environment for the Group's electronics manufacturing business remained challenging, with total sales of EMS falling by 3.7% compared with the previous period. The Group has taken proactive measures to stabilize the business revenue and has successfully expanded the main board part of its business. Nevertheless, the improved revenue performance still could not cover the rising costs and expenses, leading to a continuous loss for the Group's electronics manufacturing business.

Prospect

Looking into 2018, the economic outlook for China and the world is expected to be positive, and a strong consumption upgrade and the rapidly developing Internet are pushing China's pan-entertainment IP industry into a golden era of growth. All these have created a favorable environment for the development of the Group's main business.

The Group will closely focus on pan-entertainment business and firmly grasp precious development window of opportunities. By further clarifying its development strategy, enhancing its team building and consolidating its domestic and overseas resources, the Group strives to make new break-through in every part of the IP value chain from licensed IP and proprietary IP to IP development, licensing and operation as well as sales of IP derivative products, so as to create greater value to its customers, partners, shareholders and investors.

With regards to electronics manufacturing business, the outlook in 2018 remains full of challenges. Even though the overall industry would achieve a low single digit growth, however the labor shortage and rising costs would make it difficult to turn the business into profit. The Group will carefully evaluate all relevant factors, including its overall strategy and specific sector development, and make considerate decision on electronics manufacturing business that is in line with the best interest of its shareholders and investors.

Liquidity and Financial Resources and Capital Structure

The Group had bank balances and cash of approximately HK$46.0 million as at 31 December 2017. As at 31 December 2017, the Group had net current assets of approximately HK$314.0 million (30 June 2017: HK$358.0 million) and a current ratio of 2.3 (30 June 2017: 3.8). The Group's net asset value as at 31 December 2017 was HK$455.0 million, increasing from HK$385.0 million at 30 June 2017. Accordingly, the Group's gearing ratio of net borrowing over the equity attributable to Shareholders was 0.10 (30 June 2017: 0.11).

MANAGEMENT DISCUSSION & ANALYSIS

Major Acquisition and Disposal of Assets and Merger Issues

Save as disclosed below, the Group had no major acquisition and disposal of assets and merger issues during the Period.

On 5 May 2017, an indirect wholly-owned subsidiary of the Company entered into a merger agreement to acquire all of the stock of POW! Entertainment (the "Acquisition"). POW! Entertainment was a US public company formed under the laws of Delaware and the shares were traded on the Over-The-Counter Pink Market in US before the Acquisition. POW! Entertainment primarily engages in multimedia production and licensing business. The gross consideration of the Acquisition was US$11,500,000 (approximately HK$89,725,000).

Pursuant to a restricted stock agreement and an equity and indemnification agreement both dated 28 September 2017 entered into, amongst others, between POW! Entertainment and Mr. Stan Lee (the founder of POW! Entertainment), POW! Entertainment shall issue and grant new shares representing 15% of its equity interest to Mr. Stan Lee immediately upon completion of the Acquisition at nil consideration. Completion of the Acquisition took place in October 2017 and upon the said grant of equity interest to Mr. Stan Lee, POW! Entertainment became an indirect non-wholly owned subsidiary of the Company.

Capital Commitments

The Group did not have any capital commitments as at 31 December 2017.

Staffs

As at 31 December 2017, the Group employed a total of 476 staffs, of which 446 were employed in PRC, 20 were employed in Hong Kong and 10 were employed in USA. Total staffs costs amounted to approximately HK$36.0 million (six months ended 31 December 2016: approximately HK$48.0 million). The Group has implemented remuneration package, bonus and share option scheme as part of the remuneration policy designed to motivate individual staff by linking part of the staff's compensation with their respective performance. In addition, fringe benefits such as insurance, medical allowance and pensions were provided to ensure the competitiveness of remuneration packages offered by the Group.

Dividend

The Board does not recommend the payment of an interim dividend for the Period (2016: Nil).

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the interests and short position of the Directors, the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (b) or pursuant to Section 352 of the SFO to be recorded in the register to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

Ordinary shares of HK$0.1 each of the Company (the "Shares")

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ms. Lo Ching ("Ms. Lo")	Interest of controlled corporations (note)	698,769,952	64.87%

Note: Out of the total 698,769,952 Shares, 676,864,150 Shares are registered in the name of and beneficially owned by China Base Group Limited ("China Base"), a company incorporated in the British Virgin Islands. The entire issued share capital of China Base is beneficially owned by Ms. Lo. The remaining 21,905,802 Shares are beneficially owned by Creative Elite Holdings Limited ("Creative Elite") and Ms. Lo owns the entire issued Share capital of Creative Elite. Accordingly, Ms. Lo is deemed to be interested in 698,769,952 Shares held by China Base and Creative Elite respectively under the SFO.

Save as disclosed above, as at 31 December 2017, none of the Directors nor chief executive and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2017, the following persons (not being Directors or chief executive of the Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO, and/or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

OTHER INFORMATION

Long position

Ordinary shares of HK$0.1 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held Direct interest	Total interest	Percentage of the issued share capital of the Company
China Base	Beneficial owner	676,864,150	676,864,150	62.83%

Note:

These shares are owned by China Base, the entire issued share capital of which is owned by Ms. Lo.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2017.

Corporate Governance Practices

The Board confirms that the Group has complied with all material code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules except for the derivation as stated herein. Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Ms. Lo Ching ("Ms. Lo") serves as the chairman and also acts as chief executive officer of the Company, which constitutes a deviation from the code provision A.2.1.

The Board is of the view that vesting both roles in Ms. Lo will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with the members of the Board, and there are three independent non-executive Directors (the "INEDs") on the Board offering independent advices, the Board believes that there are adequate safeguards in place to ensure sufficient balance of powers within the Board.

Save as disclosed above, the Company has met all the applicable code provisions of the CG Code.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that in respect of the six months ended 31 December 2017, all Directors have fully complied with the required standard set out in the Model Code.

Directors' Rights to Acquire Securities or Debenture

At no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

OTHER INFORMATION

Directors' Interests in Competing Businesses

During the Period, none of the Directors or the controlling shareholders or substantial shareholders (as defined in the Listing Rules) of the Company or their respective close associates (as defined in the Listing Rules) were considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group and/or caused, or was likely to cause any other conflicts of interest with the Group, as required to be disclosed under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

Purchase, Sale or Redemption of Shares

During the Period, there was no purchase, redemption or disposal of the Group's listed securities by the Group.

Remuneration Committee

The Board established a remuneration committee (the "Remuneration Committee") who meet at least once a year. The existing committee comprises Mr. Zheng Yilei (" Mr. Zheng") as the chairman, together with Mr. Lei Jun ("Mr. Lei") and Mr. Ross Yu Limjoco ("Mr. Limjoco"). All Remuneration Committee members are INEDs. The principal duties of the Remuneration Committee as set out in its terms of reference include, inter alia, the determination of remuneration of Executive Directors and senior management and review of the remuneration policy of the Group.

Nomination Committee

The Board established a nomination committee (the "Nomination Committee") which meets at least once a year. The existing committee comprises Mr. Lei as the chairman, together with Ms. Lo and Mr. Zheng. All Nomination Committee members, with the exception of Ms. Lo, are INEDs. The duties of the Nomination Committee are to review the structure, size and composition of the Board, to identify individuals suitably qualified to become Board members, to assess the independence of INEDs, to select or make recommendations to the Board on the appointment or re-appointment of directors and succession planning for Directors, in particular the chairmen and chief executive.

Audit Committee

The Company has formed an audit committee (the "Audit Committee") to assist the Board in providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the company. The existing committee comprises Mr. Limjoco, as the chairman, Mr. Lei and Mr. Zheng, all of whom are INEDs. The Audit Committee is provided with sufficient resources to discharge its duties and meets regularly with the management and external auditors and review their reports. The Audit Committee has reviewed the unaudited consolidated financial statements and results announcement of the Company for the Period which was of the opinion that the preparation of such results complied with the applicable accounting standards, the Listing Rules and legal requirements and adequate disclosures have been made.

Review of Interim Result

The Company's unaudited interim results for the six months ended 31 December 2017 have been reviewed by the Company's auditor and the Audit Committee.

By order of the Board
Camsing International Holding Limited
Lo Ching
Chairman and Executive Director

Hong Kong, 27 February 2018

As at the date of this report, the Board comprises Ms. Lo Ching and Ms. Liu Hui as the executive Directors and Mr. Lei Jun, Mr. Ross Yu Limjoco and Mr. Zheng Yilei as independent non-executive Directors.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF CAMSING INTERNATIONAL HOLDING LIMITED
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statement of Camsing International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 9 to 24, which comprise the condensed consolidated statement of financial position as of 31 December 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 February 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2017

	NOTES	Six months ended 31.12.2017 HK$'000 (unaudited)	31.12.2016 HK$'000 (unaudited)
Revenue	3	**1,433,504**	1,551,995
Cost of sales		**(1,354,474)**	(1,505,143)
Gross profit		**79,030**	46,852
Other income		**1,975**	2,188
Other gains and losses		**2,801**	24,436
Change in fair value of derivative financial instruments		**–**	1
Distribution expenses		**(5,011)**	(5,958)
Administrative expenses		**(32,405)**	(25,202)
Finance costs		**(1,691)**	(873)
Share of results of an associate		**(75)**	–
Profit before tax		**44,624**	41,444
Income tax expense	4	**(208)**	(5,306)
Profit for the period	5	**44,416**	36,138
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss			
Exchange difference arising on translation to presentation currency		**19,076**	(37,429)
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations		**(9,491)**	4,288
Other comprehensive income (expense) for the period		**9,585**	(33,141)
Total comprehensive income for the period		**54,001**	2,997
Profit (loss) for the period attributable to:			
Owners of the Company		**45,469**	36,147
Non-controlling interests		**(1,053)**	(9)
		44,416	36,138
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**55,068**	3,006
Non-controlling interests		**(1,067)**	(9)
		54,001	2,997
Basic earnings per share	7	**HK$0.04**	HK$0.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	**31.12.2017 HK$'000 (unaudited)**	30.6.2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**30,977**	31,182
Rental deposits paid		**4,493**	3,537
Interest in an associate	9	**1,120**	–
Intangible assets	15	**57,841**	–
Goodwill	15	**67,388**	–
		161,819	34,719
Current assets			
Inventories		**50,688**	46,369
Trade and other receivables	10	**454,906**	371,539
Tax recoverable		**–**	272
Bank balances and cash		**46,365**	68,902
		551,959	487,082
Current liabilities			
Trade and other payables	11	**191,764**	86,015
Tax liabilities		**10,627**	8,489
Borrowing	12	**35,889**	34,566
		238,280	129,070
Net current assets		**313,679**	358,012
Total assets less current liabilities		**475,498**	392,731
Non-current liabilities			
Bonds		**8,145**	7,656
Deferred tax liability	13	**12,443**	–
		20,588	7,656
Net assets		**454,910**	385,075
Capital and reserves			
Share capital	14	**107,712**	107,712
Share premium and reserves		**332,577**	277,509
Equity attributable to owners of the Company		**440,289**	385,221
Non-controlling interests		**14,621**	(146)
Total equity		**454,910**	385,075

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2017

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Contributed surplus HK$'000 (note i)	Special reserve HK$'000 (note ii)	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2016 (audited)	107,712	366,526	11,478	6,400	13,529	(143,236)	362,409	–	362,409
Profit (loss) for the period	–	–	–	–	–	36,147	36,147	(9)	36,138
Exchange differences arising on translation	–	–	–	–	(33,141)	–	(33,141)	–	(33,141)
Total comprehensive (expense) income for the period	–	–	–	–	(33,141)	36,147	3,006	(9)	2,997
At 31 December 2016 (unaudited)	107,712	366,526	11,478	6,400	(19,612)	(107,089)	365,415	(9)	365,406
At 1 July 2017 (audited)	**107,712**	**366,526**	**11,478**	**6,400**	**(8,892)**	**(98,003)**	**385,221**	**(146)**	**385,075**
Profit (loss) for the period	**–**	**–**	**–**	**–**	**–**	**45,469**	**45,469**	**(1,053)**	**44,416**
Exchange differences arising on translation	**–**	**–**	**–**	**–**	**9,599**	**–**	**9,599**	**(14)**	**9,585**
Total comprehensive (expense) income for the period	**–**	**–**	**–**	**–**	**9,599**	**45,469**	**55,068**	**(1,067)**	**54,001**
Acquisition of a subsidiary (note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,834**	**15,834**
At 31 December 2017 (unaudited)	**107,712**	**366,526**	**11,478**	**6,400**	**707**	**(52,534)**	**440,289**	**14,621**	**454,910**

Notes:

(i) The contributed surplus represents the difference between the fair value of the underlying assets of a subsidiary acquired and the nominal value of the shares issued in exchange in December 2004.

(ii) The special reserve represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries acquired pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 2005.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2017

	Six months ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
	(unaudited)	(unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(5,251)**	(483,680)
INVESTING ACTIVITIES:		
Acquisition of a subsidiary (note 15)	**(75,627)**	9,146
Purchase of property, plant and equipment	**(2,248)**	(713)
Investment in an associate	**(1,152)**	–
Proceeds from disposal of property, plant and equipment	**150**	1,997
Interest received	**95**	74
Deposits paid for acquisition of property, plant and equipment	**–**	(1,704)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(78,782)**	8,800
FINANCING ACTIVITIES:		
Advance from a related party	**1,088,328**	–
Repayment to a related party	**(1,028,776)**	–
New borrowings raised	**–**	376,747
Interest paid	**–**	(7,548)
NET CASH FROM FINANCING ACTIVITIES	**59,552**	369,199
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(24,481)**	(105,681)
CASH AND CASH EQUIVALENTS AT 1 JULY	**68,902**	148,487
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**1,944**	(878)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**46,365**	41,928

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2017.

(i) Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of annual Improvements to HKFRSs 2014 – 2016 Cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 30 June 2018.

(ii) Application of new accounting policy in respect of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(ii) Application of new accounting policy in respect of goodwill (Continued)

A CGU to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(iii) Application of new accounting policy in respect of intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported as costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

(iv) Application of new accounting policy in respect of impairment on intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGUs to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(iv) Application of new accounting policy in respect of impairment on intangible assets other than goodwill (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(v) Application of new accounting policy in respect of interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these condensed consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Application of new accounting policy in respect of interest in an associate (Continued)

The requirements of HKAS 39 "Financial Instruments: Recognition and Measurement" are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's condensed consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SEGMENT INFORMATION

The Group is principally engaged in the business of provision of (i) pure assembly services; (ii) procurement and assembly services; (iii) sales and distribution of electronic products (including intellectual property ("IP") derivative electronic products); and (iv) pan-entertainment operation, including licensing fee income and provision of events organisation/production services.

The information reported to the chief operating decision maker ("CODM") (i.e. the executive directors of the Company) in respect of the Group's business is based on the operating and reportable segments mentioned above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

3. SEGMENT INFORMATION (Continued)

	Six months ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
Segment revenue		
Pure assembly services	**40,902**	71,575
Procurement and assembly services	**263,384**	244,462
Sales and distribution of electronic products (including IP derivative electronic products)	**1,063,597**	1,235,958
Pan-entertainment operation	**65,621**	–
	1,433,504	1,551,995
Segment profit		
Pure assembly services (Note)	**7,397**	11,185
Procurement and assembly services	**6,222**	8,161
Sales and distribution of electronic products (including IP derivative electronic products)	**24,663**	27,323
Pan-entertainment operation	**40,800**	–
	79,082	46,669
Unallocated operating expenses	**(37,416)**	(31,161)
Unallocated other income and gains and losses	**4,724**	26,808
Change in fair value of derivative financial instruments	**–**	1
Finance costs	**(1,691)**	(873)
Share of results of an associate	**(75)**	–
Profit before tax	**44,624**	41,444

Note: The segment result of the pure assembly services segment for the six months ended 31 December 2017, included gain on disposal of property, plant and equipment of approximately HK$52,000 (six months ended 31 December 2016: loss on disposal of property, plant and equipment of approximately HK$183,000).

The segment revenue are all from external customers and there are no inter-segment sales for both periods.

Segment profit represents the profit from each segment without allocation of other income, certain other gains and losses, change in fair value of derivative financial instruments, distribution expenses, administrative expenses, finance costs and share of results of an associate. This is the measure reported to the executive directors for the purposes of resources allocation and performance assessment.

Analysis of segment assets and liabilities has not been presented as it is not regularly reviewed by CODM.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

4. INCOME TAX EXPENSE

	Six months ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
The People's Republic of China (the "PRC") Enterprise Income Tax		
Current period	**8,178**	5,306
PRC Withholding Tax on licensing fee income	**200**	–
Deferred tax	**(8,170)**	–
	208	5,306

Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group incurred tax loss for both periods.

PRC

Under the Enterprise Income Tax Law of the PRC (the "EIT Law"), the PRC income tax rate for the Group's subsidiaries established in the PRC was 25% for both periods.

The Group's certain subsidiaries are subject to PRC withholding Tax at 7% on licensing fee income.

The United States of America (the "US")

The US corporate income tax includes (a) federal income tax calculated at a progressive rate of 15% to 35% on the estimated US federal taxable income and (b) state income tax calculated at various state income tax rates on the estimated state taxable income for the respective states for the current period. No provision for the US corporate income tax has been made as the Group's US subsidiary incurred loss for the current period.

5. PROFIT FOR THE PERIOD

	Six months ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**3,745**	7,399
Amortisation of intangible assets (included in cost of sales)	**1,390**	–
Written-down on inventories (included in cost of sales)	**68**	954
Net exchange gain (included in other gains and losses)	**(2,750)**	(23,085)
Interest income	**(95)**	(74)
(Gain) loss on disposal of property, plant and equipment (included in other gains and losses)	**(52)**	183
Release of prepaid lease payments	**–**	44
Gain on bargain purchase arising on acquisition of subsidiaries (included in other gains and losses)	**–**	(1,535)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

6. DIVIDEND

The Board of Directors did not recommend the payment of an interim dividend for both the current and prior periods.

7. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 31 December 2017 is based on the profit for the period attributable to owners of the Company of approximately HK$45,469,000 (six months ended 31 December 2016: approximately HK$36,147,000) and the number of 1,077,128,000 (six months ended 31 December 2016: 1,077,128,000) ordinary shares in issue during the six months ended 31 December 2017.

Diluted earnings per share is not presented for the six months ended 31 December 2017 and 2016 as there is no potential ordinary shares outstanding during both periods or at the end of the reporting period.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2017, the Group acquired property, plant and equipment of approximately HK$2,248,000 (six months ended 31 December 2016: approximately HK$713,000). In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK$98,000 (six months ended 31 December 2016: HK$2,180,000) for proceeds of approximately HK$150,000 (six months ended 31 December 2016: HK$1,997,000), resulting in a gain on disposal of approximately HK$52,000 (six months ended 31 December 2016: loss on disposal of approximately HK$183,000) during the six months ended 31 December 2017.

9. INTEREST IN AN ASSOCIATE

On 7 July 2017, the Group entered into an acquisition agreement with 南京國通聚富投資管理有限公司 ("南京國通") and 南京惠通創意展示股份有限公司, both of which are independent third parties under the same substantial shareholder and hold 65% and 35% interest of 潤騰文化科技有限公司 ("潤騰文化"), respectively (the "Vendors"). Pursuant to the acquisition agreement, the Group agreed to acquire and the Vendors agreed to sell 30% of the equity interest in 潤騰文化, a company incorporated in the PRC with limited liability, and principally engaging in intellectual properties and brand licensing and management business. The cash consideration of the acquisition is RMB400,000 (equivalent to approximately HK$461,000) which is based on the fair value of assets and liabilities of 潤騰文化 on the completion date.

During the six months ended 31 December 2017, the Group further injected RMB600,000 (equivalent to approximately HK$691,000) into 潤騰文化 without changing the shareholding.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

10. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers credit periods ranging from 30 to 120 days. The following is an aged analysis of the Group's trade receivables, net of allowance for doubtful debts, presented based on the dates of delivery of goods/dates of rendering of services at the end of the reporting period which approximated the respective revenue recognition dates:

	31.12.2017	30.6.2017
	HK$'000	HK$'000
0 – 30 days	**300,330**	254,332
31 – 60 days	**58,775**	32,484
61 – 90 days	**30,298**	24,845
91 – 120 days	**–**	5,712
Over 365 days	**–**	9
Trade receivables	**389,403**	317,382

The other receivables mainly include prepayments for purchase of raw materials and electronic products and for pan-entertainment operation amounting to approximately HK$58,977,000 (year ended 30 June 2017: approximately HK$46,682,000).

As at 30 June 2017, included in other receivables, approximately HK$81,000 is due from a related company in which Ms. Lo Ching ("Ms. Lo") has significant influence. The balance is unsecured, interest-free and repayable on demand and has been fully repaid during the six months ended 31 December 2017.

11. TRADE AND OTHER PAYABLES

The credit period for purchase of goods ranging from 30 to 90 days. The aged analysis of the Group's trade payables presented based on the dates of delivery of goods/dates of rendering of services at the end of the reporting period are as follows:

	31.12.2017	30.6.2017
	HK$'000	HK$'000
0 – 30 days	**70,529**	44,552
31 – 60 days	**5,591**	2,509
61 – 90 days	**3,362**	1,034
91 – 180 days	**246**	344
Over 181 days	**329**	–
Trade payables	**80,057**	48,439

The other payables mainly include receipt in advance from customers amounting to approximately HK$2,903,000 (year ended 30 June 2017: HK$21,269,000).

As at 31 December 2017, included in other payables, approximately HK$2,984,000 is due to a non-controlling shareholder of a subsidiary (year ended 30 June 2017: nil) and approximately HK$59,471,000 is due to a related company in which Ms. Lo has significant influence. The amount due to a related company is unsecured, interest-free and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

12. BORROWING

The borrowing is guaranteed by Ms. Lo, an executive director and controlling shareholder of the Company, and a company controlled by Ms. Lo, carries fixed interest rates at 8.5% per annum and is repayable within one year. There were no new borrowing raised and repayment during the six months ended 31 December 2017.

13. DEFERRED TAXATION

	Accelerated tax depreciation HK$'000	Revaluation of assets upon acquisition of a subsidiary HK$'000	Tax losses HK$'000	Total HK$'000
As at 1 July 2016	1,214	–	(1,214)	–
(Credit) charge to profit or loss	(292)	–	292	–
As at 31 December 2016	922	–	(922)	–
(Credit) charge to profit or loss	(356)	–	356	–
As at 30 June 2017	566	–	(566)	–
(Credit) charge to profit or loss	(74)	–	74	–
Acquisition of a subsidiary (note 15)	–	20,699	–	20,699
Effect of change in tax rate	–	(8,170)	–	(8,170)
Exchange realignment	–	(86)	–	(86)
As at 31 December 2017	492	12,443	(492)	12,443

On 22 December 2017, US President signed into law the tax legislation to reduce US corporate tax rate effective from 1 January 2018. Deferred taxation recognised from the revaluation of assets upon acquisition of a subsidiary, has been adjusted to the new tax rate.

14. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 July 2016, 31 December 2016, 1 July 2017 and 31 December 2017	3,000,000,000	300,000
Issued and fully paid:		
At 1 July 2016, 31 December 2016, 1 July 2017 and 31 December 2017	1,077,128,000	107,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

15. ACQUISITION OF A SUBSIDIARY

Acquisition of POW! Entertainment, Inc. (POW! Entertainment")

On 5 May 2017, an indirect wholly-owned subsidiary of the Company entered into an agreement to acquire POW! Entertainment (the "Acquisition"). Upon the completion of the Acquisition on 23 October 2017, POW! Entertainment became an indirect wholly-owned subsidiary of the Company. POW! Entertainment was a US public company formed under the laws of Delaware and the shares were traded on the Over-The-Counter Pink Market in US before the Acquisition. POW! Entertainment primarily engages in multimedia production and licensing business. The cash consideration of the transaction is US$11,500,000 (approximately HK$89,725,000).

Pursuant to a restricted stock agreement and an equity and indemnification agreement both dated 28 September 2017 entered into, amongst others, between POW! Entertainment and the founder of POW! Entertainment, POW! Entertainment shall issue and grant new shares representing 15% of its equity interest to the founder of POW! Entertainment immediately upon completion of the Acquisition at nil consideration. The Group, therefore, is considered to acquire 85% effective shareholding in POW! Entertainment.

There was no acquisition-related costs that related to the Acquisition.

Assets and liabilities at the date of Acquisition (determined on a provisional basis) are as follows:

	HK$'000
Intangible assets (note i)	59,140
Property, plant and equipment	153
Other receivables	460
Bank balances and cash	14,098
Other payables (note ii)	(14,854)
Deferred tax liability	(20,699)
	38,298

Notes:

(i) Intangible assets amounting approximately HK$59,140,000 are intellectual properties recognised upon the Acquisition. The intangible assets are amortised on straight line method over 7 years, which is the expected useful life.

(ii) Included in other payables at the date of Acquisition was the amount due to a non-controlling shareholder amounting approximately HK$2,978,000.

The fair value of assets acquired and liabilities recognised at the date of the Acquisition are provisional pending receipt of the information of the final valuation of these assets and liabilities.

The fair value of other receivables at the date of the Acquisition amounted to approximately HK$460,000. The gross contractual amounts of those other receivables acquired amounted to approximately HK$460,000 at the date of the Acquisition. The best estimate at the Acquisition date of the contractual cash flows not expected to be collected is nil.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

15. ACQUISITION OF A SUBSIDIARY (Continued)

Goodwill arising on the Acquisition (determined on a provisional basis):

	HK$'000
Consideration transferred	89,725
Plus: Non-controlling shareholder (note)	15,834
Less: Net assets acquired at provisional fair value	(38,298)
Goodwill arising on acquisition	67,261

Note: The non-controlling shareholder (15%) recognised at the Acquisition date was measured by the fair value of the proportion share of recognised amounts of net assets acquired.

Goodwill arose in the Acquisition of POW! Entertainment because the cost of combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of POW! Entertainment. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on the Acquisition is expected to be deductible for tax purposes.

Net cash outflow arising on the Acquisition:

	HK$'000
Cash consideration	89,725
Less: Bank balances and cash	(14,098)
	75,627

Included in the profit for the interim period is loss of approximately HK$5,349,000 attributable to POW! Entertainment. Revenue for the interim period includes approximately HK$83,000 attributable to POW! Entertainment.

Had the acquisition of POW! Entertainment been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 31 December 2017 would have been approximately HK$1,435,427,000, and the amount of the profit for the interim period would have been approximately HK$36,975,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

16. RELATED PARTY DISCLOSURES

(a) Related party transactions

	Six months ended	
	31.12.2017	31.12.2016
	HK$'000	HK$'000
Rental income	**1,098**	–
License income	**–**	316
License fee	**–**	90

The above transactions are with a related company in which Ms. Lo has significant influence.

During the six months ended 31 December 2017, a related company in which Ms. Lo has significant influence sublicenses an intellectual property to the Group with no consideration.

During the six months ended 31 December 2016, the Group acquired Camsing Brand Management (Group) Company Limited 香港承興品牌管理有限公司 from a related company, Guangzhou Camsing Limited Company 廣州承興營銷管理有限公司 and 奇摩品牌顧問（北京）有限公司 from Ms. Liu Hui, a director of the Company. Details of the acquisition are set out in the Group's annual financial statements for the year ended 30 June 2017.

(b) Related party balances

Details of related party balances are disclosed in notes 10 and 11.

(c) Guarantee

At the end of the reporting period, Ms. Lo and a related party company in which Ms. Lo has beneficial interest have given a guarantee in respect of certain borrowing drawn by the Group. Details of which are set out in note 12.

(d) As at 31 December 2017, certain banking facilities amounting to HK$300,000 granted to the Group is guaranteed by Ms. Lo.

(e) Compensation of key management personnel

The compensation of the Group's key management personnel for the six months ended 31 December 2017 is approximately HK$990,000 (Six months ended 31 December 2016: approximately HK$180,000).