

Mobile Internet (China) Holdings Limited

移動互聯(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1439

INTERIM REPORT 2020



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Corporate Information

Executive Directors

Mr. Chen Hong Cai (*Chairman*)
Mr. Sun Shao Hua
Ms. Zheng Li Fang

Independent Non-executive Directors

Mr. Liu Da Jin
Mr. Ma Yiu Ho, Peter
Mr. Wu Ping

Audit Committee

Mr. Ma Yiu Ho, Peter (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

Remuneration Committee

Mr. Liu Da Jin (*Chairman*)
Mr. Wu Ping
Mr. Sun Shao Hua

Nomination Committee

Mr. Chen Hong Cai (*Chairman*)
Mr. Liu Da Jin
Mr. Wu Ping

Company Secretary

Mr. Tsang Ho Yin

Authorised Representatives

Mr. Sun Shao Hua
Mr. Tsang Ho Yin

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Legal Adviser

TC & Co.

Registered Office

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

Headquarters and Principal Place of Business in the PRC

Hong Sheng Industrial Park
Fengxin Industrial Zone
Yichun City, Jiangxi Province
The PRC

Principal Place of Business in Hong Kong

Unit 2604, 26th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Stock Code

01439

Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

China Construction Bank (Fengxin Sub-branch)
Agricultural Bank of China (Fengxin Sub-branch)

Company's Website

www.hs-pack.com.cn

Management Discussion and Analysis

BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) mobile game business and (ii) packaging business. In its mobile game business, the Group offers free-to-play mobile, browser and client-based online games. In its packaging business, the Group manufactures and sells paper-based packaging products with operation in Jiangxi Province in the PRC. Our products are generally used in packaging of a wide variety of products such as food and beverage, glass and ceramics articles, metal hardware and chemicals products, bamboo articles, shopping bags, etc.

During the six months ended 30 June 2020, the outbreak of COVID-19 and its escalation on a global scale has triggered unprecedented disruptions to the economy and business operations. Due to the impact of COVID-19, the gross domestic product (GDP) in the first quarter in the PRC decrease 6.8% on a period-on-period basis. This has been the first quarterly economic contraction since the establishment of the quarterly GDP accounting system in 1992, indicating that COVID-19 had caused a more significant impact on China's economy than that of the international financial crisis in 2008.

The pandemic had a significant adverse impact on the Group's operations during the six months ended 30 June 2020.

Packaging segment

During the period under review, the Group inevitably felt the severe impact of a much weakened domestic economy resulted from the ongoing US-China trade friction as well as the COVID-19 outbreak. As a result, our packaging segment recorded a significant shrinkage in both sales and profit. The Group's revenue from the packaging segment declined by 55.8% to RMB83.0 million from RMB187.8 million in the last corresponding period and comprising approximately 91.7% of the total revenue of the Group.

Mobile game segment

The mobile game industry in China is highly competitive, with frequent introduction of new games and rapid adoption of technological and product advancements. The industry also sees dominant players with substantial financial and technical resources. The majority of the Group's existing games are at the recession stage of their respective life cycle. The Group is reviewing its strategies and resources in an effort to turn around the business and there is no new game launched during the period, both of which contributing to the sharp decline in the segmental results for the period under review.

The revenue plunged sharply to approximately RMB7.5 million, representing a year on year decline of 84.1% and comprising approximately 8.3% of the total revenue of the Group.

Management Discussion and Analysis

FINANCIAL REVIEW

During the period under review, the revenue of the Group was approximately RMB90.5 million (six months ended 30 June 2019: approximately RMB234.9 million), representing a decrease of approximately RMB144.4 million or approximately 61.5% as compared to the last corresponding period. This decrease was primarily due to (i) the significant shrinkage in sales of our packaging products resulted from the COVID-19 outbreak and the ongoing impact from the US-China trade war; and (ii) the sharp plunge of revenue from the existing games as they enter the recession stage and that no new game was launched during the period.

The following table sets out a breakdown of our revenue by product categories and their relative percentages of our total revenue during the period under review:

Revenue by products

	Six months ended 30 June			
	2020		2019	
	RMB'000	% of Total	RMB'000	% of Total
Flexo-printed cartons	29,883	33.0	73,636	31.3
Offset-printed cartons				
— Traditional paper-based cartons	24,769	27.4	51,590	22.0
— Stone-paper based cartons	28,351	31.3	62,573	26.6
Sub-total	53,120	58.7	114,163	48.6
Packaging segment	83,003	91.7	187,799	79.9
Mobile game segment	7,502	8.3	47,132	20.1
Total	90,505	100.0	234,931	100.0

Packaging segment

During the period under review, our revenue from sales of flexo-printed cartons was approximately RMB29.9 million (six months ended 30 June 2019: approximately RMB73.6 million), accounting for approximately 33.0% (six months ended 30 June 2019: approximately 31.3%) of our total revenue. Our revenue from sales of offset-printed cartons was approximately RMB53.1 million (six months ended 30 June 2019: approximately RMB114.2 million), accounting for approximately 58.7% (six months ended 30 June 2019: approximately 48.6%) of our total revenue.

Management Discussion and Analysis

Revenue by product categories of our customers (Packaging segment)

	Six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Food and beverages	24,498	29.5	51,308	27.3
Glass and ceramics articles	1,282	1.5	5,528	2.9
Metal hardware and chemical products	9,891	11.9	29,281	15.6
Bamboo articles	1,005	1.2	4,593	2.5
Department stores	18,486	22.3	33,017	17.6
Others	27,841	33.6	64,072	34.1
Packaging segment total	83,003	100.0	187,799	100.0

Note: Others mainly include stationery, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverages in the PRC. During the period under review, revenue from food and beverages manufacturers was approximately RMB24.5 million (six months ended 30 June 2019: approximately RMB51.3 million), representing approximately 29.5% (six months ended 30 June 2019: approximately 27.3%) of the revenue from packaging segment.

Mobile game segment

During the period under review, our revenue from mobile game segment was approximately RMB7.5 million (six months ended 30 June 2019: RMB47.1 million), accounting for approximately 8.3% of the total revenue (six months ended 30 June 2019: 20.1%).

Revenue by games (Mobile game segment)

	Six months ended 30 June			
	2020		2019	
	RMB'000	%	RMB'000	%
Legend of the Journey to the West (大聖傳說) & updated version				
Chinese Odyssey (大話西遊)	37	0.5	1,406	3.0
Swordsman (七絕)	253	3.4	11,123	23.6
War of Heroes (天天打魔獸)	323	4.3	12,202	25.9
Hammer of Odin (奧丁之錘)	1,464	19.5	12,722	27.0
Heroes of Chaos (亂世英雄傳)	2,335	31.1	5,380	11.4
Myths (天旗)	1,827	24.4	2,907	6.2
Hongyanjue (紅顏決)	1,245	16.6	—	—
Others	18	0.2	1,392	2.9
Mobile game segment total	7,502	100	47,132	100.0

Note: Others mainly represent commission received from operation of certain web games developed by other game developers.

Management Discussion and Analysis

Gross profit and gross profit margin

The following table sets out our total gross profit and gross profit margin by major product categories during the period under review:

	Six months ended 30 June			
	2020		2019	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	2,655	8.9	8,257	11.2
Offset-printed cartons				
— Traditional paper-based cartons	2,719	11.0	6,952	13.5
— Stone-paper based cartons	5,358	18.9	12,863	20.6
Sub-total	8,077	15.2	19,815	17.4
Packaging segment	10,733	12.9	28,072	15.0
Mobile game segment	6,605	88.0	31,095	66.0
Total	17,338	19.2	59,167	25.2

The overall gross profit of the Group decreased by RMB41.8 million or approximately 70.7% from approximately RMB59.2 million for the last corresponding period to approximately RMB17.3 million for the period under review. Our overall gross profit margin decreased from approximately 25.2% for the last corresponding period to approximately 19.2% for the period under review primarily due to the significant decrease in the revenue from both the mobile game segment and the packaging segment, coupled with the fact that there is sharper plunge in revenue from the mobile game business, where the margin is much higher than that from the packaging business.

The gross profit from flexo-printed cartons for the period under review was approximately RMB2.7 million, representing a decrease of approximately 67.8% as compared to approximately RMB8.3 million for the last corresponding period. The gross profit margin for flexo-printed cartons decreased to approximately 8.9% for the period under review from approximately 11.2% for the last corresponding period mainly due to the drop in average selling price.

The gross profit from offset-printed cartons for the period under review was approximately RMB8.1 million, representing a decline of approximately 59.2% as compared to approximately RMB19.8 million for the last corresponding period. The gross profit margin for offset-printed cartons decreased to approximately 15.2% for the period under review from approximately 17.4% for the last corresponding period.

The gross profit from our mobile game segment for the period under review was approximately RMB6.6 million, representing a decline of approximately 78.8% as compared to approximately RMB31.1 million for the last corresponding period. The gross profit margin increased to approximately 88.0% for the period under review from approximately 66.0% for the last corresponding period. The increase was mainly due to cost control policy during the period under review.

Management Discussion and Analysis

OTHER REVENUE AND INCOME

During the period under review, other revenue and income of the Group was approximately RMB1.1 million, representing a decrease of approximately 38.9% or approximately RMB0.7 million as compared to approximately RMB1.8 million for the last corresponding period. The decrease was mainly attributable to the decrease in sales of residual materials and government subsidies.

SELLING AND DISTRIBUTION EXPENSES

During the period under review, selling and distribution expenses of the Group was approximately RMB7.8 million, representing a decrease by approximately 75.2% or approximately RMB23.6 million as compared to approximately RMB31.4 million for the last corresponding period. The decrease was mainly due to the reduction in advertising and promotion expenses in light of our cost control measures adopted for the period under review. Consequently, our selling and distribution expenses as a percentage of our total turnover decreased to approximately 8.6% for the period under review as compared to approximately 13.4% for the last corresponding period.

ADMINISTRATIVE EXPENSES

During the period under review, administrative expenses of the Group was approximately RMB28.9 million, representing an increase by approximately 44.9% or approximately RMB9.0 million as compared to approximately RMB20.0 million for the last corresponding period. The increase was mainly because certain labour costs during the business suspension period due to the COVID-19 outbreak were included hereunder for the period under review.

FINANCE COSTS

Finance costs of the Group increased substantially to approximately RMB36.9 million for the period under review as compared to approximately RMB16.7 million for the last corresponding period, representing an increase of RMB20.2 million. Promissory Note 1, Promissory Note 3 and Convertible Bond 2 due to Chance Talent Management Limited ("Chance Talent") with outstanding principal amount of approximately HK\$40,000,000, HK\$120,000,000 and HK\$6,667,000, respectively, matured on 19 May 2019. In accordance with the agreements thereof, default interest will be accrued on the outstanding principal such that the total payable by the Company shall be the sum of the outstanding principal and such amount as would result in an internal rate of return of 22% per annum on the outstanding principal. The Group's finance costs increased sharply for the period under review primarily due to such interest accrued as a result.

The Company has been in discussion with Chance Talent with a view to reaching a settlement as soon as practicable.

INCOME TAX EXPENSES

During the period under review, there is no income tax expenses of the Group, representing a decrease or approximately RMB0.4 million as compared to approximately RMB0.4 million for the last corresponding period. The decrease was consistent with the decrease in taxable profit. Both of our packaging and mobile game segments were qualified as High and New Technology Enterprises and entitled to a preferential income tax rate of 15%.

Management Discussion and Analysis

LOSS FOR THE PERIOD

As a combined result of the factors discussed above, the Group's net loss for the period under review was approximately RMB63.3 million as compared to a net loss of approximately RMB11.7 million for the last corresponding period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internal resources and borrowings. As at 30 June 2020, cash and bank balances amounted to approximately RMB76.6 million (31 December 2019: RMB179.1 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB331.6 million (31 December 2019: RMB324.4 million). As at 30 June 2020, 14.2% (31 December 2019: 14.8%) of the total borrowings were denominated in Renminbi and 85.8% (31 December 2019: 85.2%) of the total borrowings were denominated in Hong Kong Dollars. The Group's gearing ratio is calculated as total borrowings, which is the summation of its borrowings divided by total equity. The gearing ratio of the Group as at 30 June 2020 and 31 December 2019 were N/A and 1,040.1% respectively.

Promissory Note 1, 3 and Convertible Bond 2 due to Chance Talent with outstanding principal amount of HK\$40,000,000, HK\$120,000,000 and HK\$6,666,667, respectively, matured on 19 May 2019 without redemption and were reallocated to borrowings. The Company has been in discussion with Chance Talent with a view to reaching a settlement as soon as practicable.

On 19 July 2019, Promissory Note 4 with outstanding principal amount of HK\$90,000,000 was matured without redemption and reallocated to borrowings. On 8 June 2020, the holder of Promissory Note 4 extended the maturity date to 7 June 2021.

As at 30 June 2020, the Group had net current liabilities of approximately RMB328.2 million (31 December 2019: net current liabilities of approximately RMB221.7 million). The Directors have given careful consideration to future liquidity, performance of the Group and its available sources of financing in assessing whether the Group will be able to repay the outstanding borrowings and meet its future finance requirements. Certain measures have been and will be taken to manage its liquidity needs and to improve its financial position which include, but not limited to, the following:

1. The Group has been and will continue to implement actions and measures to control costs and generate adequate cash flow from operations;
2. The Company has been actively exploring and negotiating feasible debt restructuring and/or refinancing plan with Chance Talent;
3. The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to seeking private placements, open offers or rights issue of the Company as well as seeking potential investors who may be interested in debt financing or the combination of both;
4. The major shareholders of the Company, Novel Blaze Limited and Wealthy Achievers Limited, are willing to provide financial support to the Group on a best effort basis to enable the Group to continue as a going concern.

Details regarding uncertainty on the going concern of the Group are set out in Note 1 to the consolidated financial statements. Despite the existence of such uncertainty, the Board is of the view that it is appropriate to prepare the consolidated financial statements on a going concern basis, and that each of the Company's operating subsidiaries has adequate resources to continue in operational existence.

Management Discussion and Analysis

INVENTORIES

As at 30 June 2020, the inventories carried a total worth of approximately RMB47.5 million which was less than the amount of approximately RMB52.9 million as at 31 December 2019. The inventory turnover increased by 68 days to 127 days compared to 59 days as at 31 December 2019.

TRADE RECEIVABLES

As at 30 June 2020, the trade receivables amounted to approximately RMB75.7 million (31 December 2019: approximately RMB70.4 million). The trade receivables turnover days increased by 94 days to 148 days compared to 54 days as at 31 December 2019.

TRADE PAYABLES

As at 30 June 2020, the trade payables amounted to approximately RMB36.0 million (31 December 2019: approximately RMB40.6 million). The trade payables turnover days increased by 58 days to 96 days compared to 38 days as at 31 December 2019.

OUTLOOK

Various economic indicators rebounded in the second quarter of 2020, reflecting gradual recovery of the overall economy in China. As the pandemic has yet to be fully under control, resuming economic activities and the recovery of domestic demands are still subject to certain restrictions.

In the meantime, the PRC government has been implementing a series of favourable national and local business policies to support the SMEs in their response to COVID-19. With the introduction of these favorable policies and the domestic epidemic under control, the Company believe that the economy will gradually recover so as the Group's business.

Packaging segment

Looking forward, the Group will continue to explore new opportunities while strengthening the existing business.

Despite the challenging commercial environment created by the COVID-19 and US-China Trade War, the Group will continue to strategically focus on market opportunities in its high-end packaging segment, which requires higher technical standards and enjoys higher margin. The Group will also continue its efforts in providing value added services, such as structural design and logistics management, with a view to enhancing its market position.

At the same time, the Group will continue to take various cost control measures through prudent inventories and procurement management and stringent credit control and financial management, in order to keep itself in a better position to weather the potentially challenging global economic prospect and lay down a solid foundation for future development when opportunities arise.

Mobile game segment

Going forward, the Group will continue to review the mobile game market and take actions accordingly.

Strategically, the Group will make efforts to sharpen its market acumen and formulate game development plans based on deeper understanding of evolving gamer preferences and market trends, so as to effectively launch new games, upgrade game versions, launch new game functions or adjust distribution strategies.

Management Discussion and Analysis

On operational efficiency, the Group will continue to optimize operating costs in this segment with an aim to achieve better operational results.

EMPLOYEES

As at 30 June 2020, the Group had 523 full time employees in total (31 December 2019: 586). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the period under review.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil) to the shareholders.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group's capital commitments were approximately RMB60.0 million (31 December 2019: approximately RMB60.0 million). The capital commitments were related to capital contribution payable to a subsidiary.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 30 June 2020, the Group pledged certain assets with a carrying value of approximately RMB133.3 million (31 December 2019: approximately RMB142.0 million) as collateral for the Group's bank borrowings.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any significant investments, material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2020.

Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

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

As at 30 June 2020, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under 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 Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules:

Long positions in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua (Note)	Interest of a controlled corporation	408,000,000	
	Beneficial owner	7,500,000	30.16%

Note: These shares are registered in the name of Novel Blaze Limited ("Novel Blaze"), the entire issued share capital of which is wholly and beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng is the spouse of Mr. Sun Shao Hua. Therefore, Mr. Sun is deemed to be interested in all the Shares in which Ms. Zheng is deemed to be interested. In addition, Mr. Sun holds 7,500,000 shares.

Save as disclosed above, as at 30 June 2020, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 30 June 2020, so far as is known to the Directors, the following persons/entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or 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:

Long positions in shares of the Company

Name of shareholder	Capacity	Note	Number of Shares held	Approximate percentage of shareholding
Novel Blaze	Beneficial owner	1	408,000,000	29.62%
Ms. Zheng Xue Xia	Interest of a controlled corporation	1	408,000,000	
	Interest of spouse	2	7,500,000	30.16%
Wealthy Achievers Limited	Beneficial owner	3	156,477,143	11.4%
Mr. Peng Dongmiao	Interest of a controlled corporation	3	156,477,143	11.4%

Notes:

1. Novel Blaze is incorporated in the BVI and the entire issued share capital is beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng, being the controlling shareholder, is deemed to be interested in all the Shares owned by Novel Blaze under the SFO.
2. Ms. Zheng is the wife of Mr. Sun Shao Hua and is deemed to be interested in the shares which are owned by Mr. Sun Shao Hua under the SFO.
3. Wealthy Achievers Limited is incorporated in the BVI and the entire issued share capital is beneficially owned by Mr. Peng Dongmiao. Mr. Peng, being the controlling shareholder, is deemed to be interested in all the Shares owned by Wealthy Achievers Limited under the SFO.

Other Information

CORPORATE GOVERNANCE

The Company has adopted the Code Provisions in the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board confirms that, save as disclosed below, the Company has complied with the CG Code throughout the six months ended 30 June 2020.

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. Mr. Chen Hong Cai, the Chairman of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective Executive Directors and senior management, who are in charge of different functions, complement the role of the Chairman. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders’ benefits.

The Board shall nevertheless review the structure from time to time to ensure appropriate move is being taken should suitable circumstance arise.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct for securities transactions. Having made specific enquiries, all the Directors confirm that they have complied with the Model Code throughout the period under review.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with the CG Code as set out in Appendix 14 to the Listing Rules.

The primary duties of the Audit Committee, amongst other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. For the period under review, the Audit Committee consists of three Independent Non-executive Directors, namely Mr. Ma Yiu Ho, Peter (Chairman), Mr. Liu Da Jin and Mr. Wu Ping.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2020 have not been audited by the auditor of the Company but have been reviewed by the Audit Committee. The Audit Committee is of the view that the interim report for the six months ended 30 June 2020 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	4	90,505	234,931
Cost of sales		(73,167)	(175,764)
Gross profit		17,338	59,167
Other revenue	5	511	1,066
Other income	6	602	756
Selling and distribution expenses		(7,790)	(31,399)
Administrative expenses		(28,904)	(19,950)
Amortisation of intangible assets		(4,517)	(4,281)
Reversal of allowance for expected credit loss recognised in respect of financial assets carried at amortised costs, net		7	—
Impairment of long-term prepayment		(3,727)	—
(Loss)/profit from operations		(26,480)	5,359
Finance costs	8	(36,851)	(16,695)
Loss before tax	7	(63,331)	(11,336)
Income tax expenses	9	—	(406)
Loss for the period		(63,331)	(11,742)
Other comprehensive (loss)/income for the period, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		(7,794)	406
Other comprehensive (loss)/income for the period, net of tax		(7,794)	406
Total comprehensive loss for the period, net of tax		(71,125)	(11,336)
Loss attributable to owners of the Company		(63,331)	(11,742)
Total comprehensive loss attributable to owners of the Company		(71,125)	(11,336)
Loss per share attributable to owners of the Company			
— Basic (RMB cents)	11	(4.60)	(0.85)
— Diluted (RMB cents)	11	(4.60)	(0.85)

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	12	230,270	186,111
Goodwill		11,999	11,999
Intangible assets		11,114	15,631
Right-of-use assets		2,877	3,616
Long-term prepayment		32,000	35,727
		288,260	253,084
Current assets			
Inventories		47,482	52,923
Trade receivables	13	75,730	70,385
Prepayments, deposits and other receivables		45,915	9,978
Cash and bank balances		76,595	179,071
		245,722	312,357
Current liabilities			
Trade, bills, other payables and accruals	14	241,404	208,062
Borrowings	15	331,608	324,408
Lease liabilities		820	1,363
Contract liabilities	16	85	246
		573,917	534,079
Net current liabilities		(328,195)	(221,722)
Total assets less current liabilities		(39,935)	31,362
Non-current liability			
Lease liabilities		—	172
Net (liabilities)/assets		(39,935)	31,190
Capital and reserves			
Share capital	17	11,161	11,161
Reserves		(51,096)	20,029
Total equity		(39,935)	31,190

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company							Total RMB'000
	Reserves							
	Share capital RMB'000	Share premium RMB'000	Convertible bonds reserve RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	
At 1 January 2019 (Audited)	11,161	611,286	426	49,850	15,901	(8,923)	(200,772)	478,929
Loss for the period	—	—	—	—	—	—	(11,742)	(11,742)
Other comprehensive income for the period	—	—	—	—	—	406	—	406
Total comprehensive loss for the period	—	—	—	—	—	406	(11,742)	(11,336)
Transfer to statutory reserve	—	—	—	855	—	—	(855)	—
Transfer of lapsed conversion rights of matured convertible bonds	—	—	(426)	—	—	—	426	—
At 30 June 2019 (Unaudited)	11,161	611,286	—	50,705	15,901	(8,517)	(212,943)	467,593
At 1 January 2020 (Audited)	11,161	611,286	—	50,473	15,901	(15,351)	(642,280)	31,190
Loss for the period	—	—	—	—	—	—	(63,331)	(63,331)
Other comprehensive loss for the period	—	—	—	—	—	(7,794)	—	(7,794)
Total comprehensive loss for the period	—	—	—	—	—	(7,794)	(63,331)	(71,125)
At 30 June 2020 (Unaudited)	11,161	611,286	—	50,473	15,901	(23,145)	(705,611)	(39,935)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities		
Cash (used in)/generated from operations	(47,246)	852
PRC tax paid	—	(319)
Net cash (used in)/generated from operating activities	(47,246)	533
Investing activities		
Interest received	215	356
Prepayment for long-term prepayment	—	(7,971)
Purchase of property, plant and equipment	(55,638)	(81)
Proceeds from disposal of property, plant and equipment	86	61
Net cash used in investing activities	(55,337)	(7,635)
Financing activities		
Interest paid on convertible bonds and promissory notes	—	(83)
Payment of lease liabilities	(749)	—
Proceeds from borrowings	49,829	14,982
Repayments of borrowings	(48,030)	(49,000)
Bank borrowings interest paid	(1,768)	(1,488)
Redemption of promissory notes	—	(40,219)
Net cash used in financing activities	(718)	(75,808)
Net decrease in cash and cash equivalents	(103,301)	(82,910)
Cash and cash equivalents at the beginning of the period	179,071	268,320
Effect of exchange rate changes on the balance of cash held in foreign currencies	825	338
Cash and cash equivalents at the end of the period	76,595	185,748
Analysis of balances of cash and cash equivalents		
Cash and bank balances	76,595	185,748

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the “HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2019 as contained in the Company’s annual report 2019 (the “Annual Report 2019”), which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the “HKFRSs”).

These unaudited condensed consolidated financial statements are presented in Renminbi (“RMB”) and rounded to the nearest thousand (RMB’000), unless otherwise stated. RMB is the Company’s presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars. The directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors. These unaudited condensed consolidated financial statements were approved for issue on 31 August 2020.

Going concern

The Group incurred a net loss of approximately RMB63,331,000 for the six months ended 30 June 2020 and, as of that date, the Group’s current liabilities exceeds its current assets by approximately RMB328,195,000.

In view of the above circumstances, the directors of the Company have given careful consideration to the future liquidity and financial position of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been taken to mitigate the liquidity position and to improve the Group’s financial position which include, but are not limited to, the followings:

- (i) The Group is taking measures to tighten cost control with an aim to attain positive cash flow from operations;
- (ii) The Group is in the process of negotiating with its promissory noteholders and convertible bondholders to restructure and/or refinance its borrowings, and secure necessary facilities to meet the Group’s working capital and financial requirements in the near future;
- (iii) The Directors are considering various alternatives to strengthen the capital base of the Company including but not limited to, seeking new investment and business opportunities (manufacturing of medical supplies), private placements, open offers or rights issue of new shares of the Company;
- (iv) The major shareholders of the Company, Novel Blaze Limited and Wealthy Achievers Limited, are willing to provide financial support to the Group to enable the Group to continue as a going concern and to settle its liabilities as and when they fall due; and
- (v) The Group is currently re-negotiating the repayment schedules with certain of its debtors and endeavouring to request them to repay the trade receivables in accordance with the repayment schedules agreed with them.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION (continued)

Going concern (continued)

The directors of the Company are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as they fall due within twelve months from the date of approval of the consolidated financial statements. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, since the execution of the above plans and measures are in progress, significant uncertainties exist as to whether management of the Group will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to repay, renew or extend the maturity dates of the promissory notes and convertible bonds, generate adequate financing and operating cash flows.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

2. CHANGE IN ACCOUNTING POLICIES

Overview

The accounting policies adopted in preparing the financial statements are consistent with those applied in the annual consolidated financial statements of the Company for the year ended 31 December 2019, with addition for the new and revised HKFRSs (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, that have become effective for the Group's financial period beginning on 1 January 2020.

The Group has early applied the Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" in the current interim period. The application has no impact to the opening accumulated losses at 1 January 2020. The Group recognised the rent concession that resulted from forgiveness or waiver by the lessor of approximately RMB288,000 in the profit or loss for the current interim period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. OPERATING SEGMENT

The Group engaged in two operating segments which are sales of paper-based packaging products and development, distribution and operation of mobile game products. The chief operating decision makers allocated resources and assessed performance based on the results of the period for the entire business comprehensively.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Segment revenues and results

The following is an analysis of the Group's turnover and results by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile game products		Consolidated	
	6 months ended 30 June 2020 RMB'000 (Unaudited)	6 months ended 30 June 2019 RMB'000 (Unaudited)	6 months ended 30 June 2020 RMB'000 (Unaudited)	6 months ended 30 June 2019 RMB'000 (Unaudited)	6 months ended 30 June 2020 RMB'000 (Unaudited)	6 months ended 30 June 2019 RMB'000 (Unaudited)
Revenue	83,003	187,799	7,502	47,132	90,505	234,931
Segment results	(7,924)	7,701	(13,387)	1,258	(21,311)	8,959
Unallocated corporate expenses					(6,953)	(9,223)
Unallocated finance costs					(35,067)	(11,072)
Loss before tax					(63,331)	(11,336)
Income tax expenses					—	(406)
Loss for the period					(63,331)	(11,742)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. OPERATING SEGMENT (continued)

Segment revenues and results (continued)

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile game products		Consolidated	
	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Segment assets	389,267	475,456	75,257	88,148	464,524	563,604
Unallocated corporate assets					69,458	1,837
Total assets					533,982	565,441
Segment liabilities	84,414	95,189	9,788	9,293	94,202	104,482
Unallocated corporate liabilities					479,715	429,769
Total liabilities					573,917	534,251

The Company's and some dormant companies' assets are not considered to be segment assets for reporting to the chief decision makers as they are managed by the central treasury function.

The Company's and some dormant companies' liabilities are not considered to be segment liabilities for reporting to the chief decision makers as they are managed by the central treasury function.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. OPERATING SEGMENT (continued)

Other segment information

Six months ended 30 June 2020

	Paper-based packaging products RMB'000 (Unaudited)	Development, distribution and operation of mobile game products RMB'000 (Unaudited)	Unallocated RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Capital expenditures	(24,344)	—	(31,294)	(55,638)
Depreciation of property, plant and equipment	(11,228)	(8)	(158)	(11,394)
Depreciation of right-of-use assets	(30)	(329)	(390)	(749)
Amortisation of intangible assets	—	(4,517)	—	(4,517)
Reversal of allowance for expected credit loss recognised in respect of financial assets carried at amortised cost, net	—	7	—	7
Finance costs	(1,749)	(35)	(35,067)	(36,851)

Six months ended 30 June 2019

	Paper-based packaging products RMB'000 (Unaudited)	Development, distribution and operation of mobile game products RMB'000 (Unaudited)	Unallocated RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Capital expenditures	(81)	—	—	(81)
Depreciation of property, plant and equipment	(11,116)	(38)	(25)	(11,179)
Amortisation of intangible assets	—	(4,281)	—	(4,281)
Finance costs	(1,427)	(61)	(15,207)	(16,695)

During the six months ended 30 June 2020 and 2019, all revenue is derived from customers in the PRC.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. REVENUE

Revenue represents the net amounts received and receivable for goods sold, net of discounts and excludes value-added tax, service fees and commission received and sales of in-game virtual items.

Disaggregation of revenue from customers by major products or services line and timing is as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue recognised at a point in time: Sales of paper-based packaging products	83,003	187,799
Revenue recognised over time: Development, distribution and operation of mobile game products	7,502	47,132
	90,505	234,931

5. OTHER REVENUE

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Sales of residual materials	296	710
Bank interest income	215	356
	511	1,066

6. OTHER INCOME

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Government subsidies	287	421
Rent concession	288	—
Reversal of bad debt written-off	—	255
Sundry incomes	27	80
	602	756

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Staff costs:		
Employee benefit expense (including directors' remuneration)		
Wages and salaries	26,863	23,903
Retirement benefit schemes contributions	832	2,711
	27,695	26,614
Other items:		
Cost of inventories sold	7,703	159,728
Depreciation of property, plant and equipment	11,394	11,181
Depreciation of right-of-use assets	749	—
Amortisation of prepaid lease payments	—	30
Amortisation of intangible assets	4,517	4,281
Minimum lease payments under operating leases of rented premises	—	789
Research and development costs	619	758

8. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest expenses on borrowings	36,827	7,012
Interest expenses on lease liabilities	24	—
Imputed interest on promissory notes	—	9,167
Imputed interest on convertible bonds	—	516
	36,851	16,695

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
The PRC Enterprise Income Tax		
— Current tax	—	406
— Under provision in prior period	—	—
Total income tax recognised in profit or loss	—	406

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (“Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rate regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. No Hong Kong profit tax is provided as the Group does not have any assessable profit from the Group’s operation in Hong Kong.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 25%). Pursuant to the relevant laws and regulations in the PRC, HongSheng (Jiangxi) Color Printing Packaging Co., Ltd (“HongSheng”), which qualified as a High and New Technology Enterprise (“HNTE”) in August 2014, was entitled to a reduced enterprise income tax rate of 15% from 1 January 2014 to 31 December 2016. During the year ended 31 December 2019, HongSheng renewed the qualification of HNTE and entitled to the reduced tax rate of 15% until the year ended 31 December 2019.

In accordance with various approval documents issued by the PRC government authority, Behill Science Technology Co., Limited was qualified as a HNTE and entitled to a reduced enterprise income tax rate of 15% from 1 January 2018 to 31 December 2020.

10. DIVIDENDS

The Directors do not recommend payment of any dividends for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

11. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

Basic and diluted loss per share

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Loss attributable to owners of the Company for the purpose of loss per share	(63,331)	(11,742)

Number of shares

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Weighted average number of ordinary shares	1,377,497,662	1,377,497,662

Basic loss per share for the periods ended 30 June 2020 and 2019 are calculated by dividing the losses for the period attributable to owners of the Company by the weighted average number of shares in issue during the period.

For the periods ended 30 June 2020 and 2019, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and the effect of exercise the share options since it would result in an anti-dilutive effect on loss per share.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 31 December 2019 & 1 January 2020 (Audited)	202,204	847	125	71,285	154	—	274,615
Additions	344	—	—	—	7,706	47,588	55,638
Disposal	(179)	(32)	—	—	—	—	(211)
Exchange realignment	—	—	—	—	3	—	3
At 30 June 2020 (Unaudited)	202,369	815	125	71,285	7,863	47,588	330,045
Accumulated depreciation							
At 31 December 2019 & 1 January 2020 (Audited)	63,136	672	118	24,467	111	—	88,504
Charge for the year	9,495	57	—	1,693	149	—	11,394
Eliminated on disposal	(97)	(28)	—	—	—	—	(125)
Exchange realignment	—	—	—	—	2	—	2
At 30 June 2020 (Unaudited)	72,534	701	118	26,160	262	—	99,775
Net book value							
At 30 June 2020 (Unaudited)	129,835	114	7	45,125	7,601	47,588	230,270
At 31 December 2019 (Audited)	139,068	175	7	46,818	43	—	186,111

Assets pledged as security

As at 30 June 2020, machinery with carrying amount of approximately RMB91,484,000 (31 December 2019: RMB98,686,000) (Note 18) have been pledged to secure bank borrowings (Note 15) granted to the Group.

As at 30 June 2020, buildings with carrying amount of approximately RMB39,639,000 (31 December 2019: RMB41,171,000) (Note 18) have been pledged to secure bank borrowings (Note 15) granted to the Group.

As at 30 June 2020, computer and office equipment with carrying amount of approximately RMB83,000 (31 December 2019: Nil) (Note 18) have been pledged to secure bank borrowings (Note 15) granted to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. TRADE RECEIVABLES

The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below is net of allowance/reversal of allowance for expected credit loss:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0–30 days	29,848	30,484
31–60 days	25,274	29,188
61–90 days	15,862	10,683
91–180 days	4,746	—
181–365 days	—	30
	75,730	70,385

The Group allows an average credit period from 30 to 90 days. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Allowances for expected credit loss are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Company does not hold any collaterals or other credit enhancements over these balances.

As at 30 June 2020, trade receivables of approximately RMB4,746,000 were past due but not impaired (31 December 2019: RMB100,000).

14. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	35,990	40,646
Accruals	31,107	31,034
Interest payable	173,385	135,460
Other payables	922	922
	241,404	208,062

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS (continued)

An aged analysis of the trade payables, based on invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0–30 days	20,173	22,297
31–60 days	15,565	18,349
61–90 days	252	—
	35,990	40,646

The average credit period granted by suppliers is 60 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

15. BORROWINGS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Secured bank borrowings — repayable within one year	46,970	48,000
Secured other borrowings — repayable within one year	151,994	—
Non-secured other borrowings — repayable within one year	132,644	276,408
	331,608	324,408

All the bank borrowings were denominated in RMB. As at 30 June 2020 and 31 December 2019, the bank borrowings were secured by certain property, plant and equipment held by the Group as set out in Note 12 and certain right-of-use assets.

Borrowings as at 30 June 2020 include amounts of approximately RMB145,914,000 and RMB6,080,000 (equivalent to approximately HKD160,000,000 and HKD6,667,000) which related to overdue promissory notes and convertible bond respectively and both bearing a default interest rate of 22% per annum, and amount of approximately RMB82,077,000 (equivalent to approximately HKD90,000,000) which related to overdue Promissory Note 4 bearing revised interest rate of 7% per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. BORROWINGS (continued)

The ranges of effective interest rates (which are equal to the contracted interest rates) on borrowings are as follows:

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Fixed rate — bank borrowings	5.01% to 7.8%	5.7% to 7.8%
Fixed rate — other borrowings	7.0% to 22.0%	4.0% to 22.0%

16. CONTRACT LIABILITIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract liabilities	85	246

17. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each	8,000,000	80,000

	Number of shares '000	Share capital HK\$'000	RMB'000
<i>Issued and fully paid:</i>			
At 31 December 2019, 1 January 2020 and 30 June 2020, ordinary shares of HK\$0.01 each	1,377,498	13,775	11,161

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

18. PLEDGED ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 15) of the Group.

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Machinery (Note 12)	91,484	98,686
Buildings (Note 12)	39,639	41,171
Computer and office equipment (Note 12)	83	—
Right-of-use assets	2,105	2,135
	133,311	141,992

19. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the unaudited condensed consolidated interim financial statements, the Group had entered into the following related party transactions, which in the opinion of the Directors of the Company, were carried out on normal commercial terms and in the ordinary course of the Group.

Compensation of key management personnel of the Group, including director's remuneration are as follows:

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Fees	109	104
Other emoluments:		
Salaries, allowances and benefits in kind	5,610	5,386
Retirement benefit schemes contributions	40	41
Total	5,759	5,531

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. MATERIAL RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationships	Nature of transactions	Six months ended 30 June	
			2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
鴻聖信息科技(廈門) 有限責任公司	Company controlled by a Director	Office premises rental expenses	58	346
		Office premises rent concession income	288	—
Mr. Peng Dongmiao (Note 1)	Substantial shareholder	Interest expenses on Promissory Note 2	—	1,381
		Interest expenses on Promissory Note 4	—	3,033
		Interest expenses on borrowings	2,823	—

Notes:

- (1) As a result of business combination during the year ended 31 December 2015, the Company issued Consideration Share and Promissory Note 2 to Mr. Peng Dongmiao for the consideration of acquisition of the entire equity interest of Cable King Limited. Mr. Peng Dongmiao became the substantial shareholder of the Company. During the six months ended 30 June 2020, interest expenses on borrowings of approximately RMB2,823,000 (equivalent to approximately HK\$3,116,000). During six months ended 30 June 2019, approximately RMB4,414,000 (equivalent to approximately HK\$5,104,000) was incurred in relation to interest expenses on Promissory Note 2 and 4 held by Mr. Peng Dongmiao.
- (2) Mr. Sun Shao Hua, the controlling shareholder of the Company, provides guarantee to secure borrowings of the Group.
- (3) Ms. Zheng Xue Xia, spouse of Mr. Sun Shao Hua, provides guarantee and pledges asset to secure borrowings of the Group.

20. COMMITMENT

Capital commitment

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Authorised and contracted for capital contributions payable to subsidiaries	60,000	60,000