

# Mobile Internet (China) Holdings Limited 移動互聯(中國)控股有限公司

(Formerly known as China Packaging Holdings Development Limited 中華包裝控股發展有限公司)

(Incorporated in the Cayman Islands with limited liability)

Stock Code:1439



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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. Hu Chung Ming (FCPA)

### Authorised Representatives

Mr. Sun Shao Hua  
Mr. Hu Chung Ming

### 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 22, 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](http://www.hs-pack.com)



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is currently engaged in two business segments, (i) mobile gaming business and (ii) packaging business. During the period under review, the Group has continued to focus on the strategy to diversify into the fast growing PRC gaming business. It offers free-to-play mobile, browser and client-based online games. Apart from the mobile gaming business, the Group continued to engage in the manufacturing and sales of 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.

### Mobile gaming segment

During the period under review, apart from the 4 existing self-developed games, Cable King has continued to develop new games based on its strong technical and game development teams. It has officially launched a new mobile game namely, Hammer of Odin (奧丁之錘) in January 2018 and a H5 game namely, Myth (天旗) in trail mode since May 2018. The revenue from mobile gaming segment was approximately RMB187.6 million, representing approximately 38.0% of the total revenue of the Group. The increase in revenue was mainly attributable to the contribution of two new games, namely Swordsman (七絕) and War of Heroes (天天打魔獸) launched in the second half of last year and one new game, namely Hammer of Odin (奧丁之錘) launched during the period under review.

### Packaging segment

During the period under review, the Chinese government has continued to strengthen control over the reduction in volume of imported waste paper and strictly implement environmental protection regulations in the domestic paper industry. This has led to a tightening supply of imported waste paper and domestic produced paper. As a result, the average price of raw paper remained high in the first half of 2018. In the face of such surging raw material cost and intense competition, the Group recorded sales volume of packaging products of approximately 75.7 million square meters, representing a year-on-year decline of 31.4%. The Group's revenue from packaging segment has declined by 18.5% with the gross profit margin dropped 3.3% to 18.5% as compared to the last corresponding period.

## FINANCIAL REVIEW

During the period under review, the total revenue of the Group was approximately RMB493.5 million (six months ended 30 June 2017: approximately RMB503.9 million), representing a slightly decrease of approximately RMB10.4 million or approximately 2.1% as compared to the last corresponding period. The decrease in total revenue was mainly because revenue from packaging segment has deteriorated due to the challenging environment encountered in the packaging business. However, thanks to our diversity strategy, the plunge in revenue from our packaging segment was partially offset by the growth in revenue from our mobile gaming segment.

## MANAGEMENT DISCUSSION AND ANALYSIS

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			
	2018		2017	
	RMB'000	% of Total	RMB'000	% of Total
Flexo-printed cartons	<b>139,565</b>	<b>28.3</b>	183,083	36.3
Offset-printed cartons				
– Traditional paper-based cartons	<b>76,574</b>	<b>15.5</b>	95,609	19.0
– Stone-paper based cartons	<b>89,764</b>	<b>18.2</b>	96,567	19.2
Sub-total	<b>166,338</b>	<b>33.7</b>	192,176	38.2
Packaging segment	<b>305,903</b>	<b>62.0</b>	375,259	74.5
Mobile gaming segment	<b>187,619</b>	<b>38.0</b>	128,660	25.5
Total	<b>493,522</b>	<b>100.0</b>	503,919	100.0

### Packaging segment

During the period under review, our revenue from sales of flexo-printed cartons was approximately RMB139.6 million (six months ended 30 June 2017: approximately RMB183.1 million), accounting for approximately 28.3% (six months ended 30 June 2017: approximately 36.3%) of our total revenue. Our revenue from sales of offset-printed cartons was approximately RMB166.3 million (six months ended 30 June 2017: approximately RMB192.2 million), accounting for approximately 33.7% (six months ended 30 June 2017: approximately 38.2%) of our total revenue.

### Turnover by product categories of our customers (Packaging segment)

	Six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Food and beverages	<b>101,202</b>	<b>33.1</b>	137,737	36.7
Glass and ceramics articles	<b>32,164</b>	<b>10.5</b>	39,895	10.6
Metal hardware and chemical products	<b>35,111</b>	<b>11.5</b>	43,604	11.6
Bamboo articles	<b>7,541</b>	<b>2.5</b>	8,271	2.2
Department stores	<b>48,362</b>	<b>15.8</b>	64,052	17.1
Others	<b>81,523</b>	<b>26.6</b>	81,700	21.8
Packaging segment total	<b>305,903</b>	<b>100.0</b>	375,259	100.0

Note: Other products 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 RMB101.2 million (six months ended 30 June 2017: approximately RMB137.8 million), representing approximately 33.1% (six months ended 30 June 2017: approximately 36.7%) of the revenue from packaging segment.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Mobile gaming segment

During the period under review, our revenue from mobile gaming segment was approximately RMB187.6 million (six months ended 30 June 2017: RMB128.7 million), accounting for approximately 38.0% of the total revenue (six months ended 30 June 2017: 25.5%). The increase in percentage of mobile gaming segment is because of the increase in revenue generated from new games.

## Turnover by games (Mobile gaming segment)

	Six months ended 30 June			
	2018		2017	
	RMB'000	%	RMB'000	%
Legend of the Journey to the West (大聖傳說)	12,579	6.7	31,866	24.8
Heroes of the Imperial Empire (帝國英雄)	3,883	2.0	24,963	19.4
Legend of the Reign of the Assassins (劍雨傳說)	44,319	23.6	65,844	51.2
Swordsman (七絕)	55,877	29.8	–	–
War of Heroes (天天打魔獸)	41,267	22.0	–	–
Hammer of Odin (奧丁之錘)	28,069	15.0	–	–
Others	1,625	0.9	5,987	4.6
<b>Mobile gaming segment total</b>	<b>187,619</b>	<b>100.0</b>	<b>128,660</b>	<b>100.0</b>

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

## 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			
	2018		2017	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	21,379	15.3	29,763	16.3
Offset-printed cartons				
– Traditional paper-based cartons	12,898	16.8	18,922	19.8
– Stone-paper based cartons	22,207	24.7	33,296	34.5
Sub-total	35,105	21.1	52,218	27.2
Printing segment	56,484	18.5	81,981	21.8
Mobile gaming segment	117,079	62.4	76,963	59.8
<b>Total</b>	<b>173,563</b>	<b>35.2</b>	<b>158,944</b>	<b>31.5</b>



## MANAGEMENT DISCUSSION AND ANALYSIS

The overall gross profit of the Group increased by RMB14.7 million or approximately 9.3% from approximately RMB158.9 million for the last corresponding period to approximately RMB173.6 million for the period under review. Our overall gross profit margin increased from approximately 31.5% for the last corresponding period to approximately 35.2% for the period under review primarily due to the increase in contribution of the mobile gaming segment with a relative high gross profit ratio as compared to the packaging business.

The gross profit from flexo-printed cartons for the period under review was approximately RMB21.4 million, representing a decrease of approximately 28.2% as compared to approximately RMB29.8 million for the last corresponding period. The gross profit margin for flexo-printed cartons decreased slightly to approximately 15.3% for the period under review from approximately 16.3% for the last corresponding period mainly due to the continual increase in raw material cost.

The gross profit from offset-printed cartons for the period under review was approximately RMB35.1 million, representing a decline of approximately 32.8% as compared to approximately RMB52.2 million for the last corresponding period. The gross profit margin for offset-printed cartons decreased to approximately 21.1% for the period under review from approximately 27.2% for the last corresponding period.

The gross profit from our mobile gaming segment for the period under review was approximately RMB117.1 million, representing a growth of approximately 52.1% as compared to approximately RMB77.0 million for the last corresponding period. The gross profit margin increased to approximately 62.4% for the period under review from approximately 59.8% for the last corresponding period.

### OTHER REVENUE AND INCOME

During the period under review, other revenue and income of the Group was approximately RMB2.7 million, representing a decrease of approximately 6.9% or approximately RMB0.2 million as compared to approximately RMB2.9 million for the last corresponding period. The decrease was mainly attributable to the decrease in interest income.

### SELLING AND DISTRIBUTION EXPENSES

During the period under review, selling and distribution expenses of the Group was approximately RMB79.9 million, representing an increase by approximately 130.3% or approximately RMB45.2 million as compared to approximately RMB34.7 million for the last corresponding period. The increase was mainly due to additional advertising and promotional activities for the games launched on our publication and distribution platforms known as youc.com (優戲網) and menle.com (萌樂網). Consequently, our selling and distribution expenses as a percentage of our total turnover increased to approximately 16.2% for the period under review as compared to approximately 6.8% for the last corresponding period.

### ADMINISTRATIVE EXPENSES

During the period under review, administrative expenses of the Group was approximately RMB25.9 million, representing an increase by approximately 20.5% or approximately RMB4.4 million as compared to RMB21.5 million for the last corresponding period. The increase was primarily attributable to the increase in salaries, performance-based bonus and staff welfare as a result of business expansion.

### CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments represent the term extension and redemption option derivatives embedded in the convertible bonds and promissory notes. The derivative financial instruments are initially measured at fair value with changes in fair value recognised in profit and loss.



# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCE COSTS

During the period under review, finance costs of the Group was approximately RMB15.1 million, representing a decrease by approximately 6.2% or approximately RMB1.0 million as compared to RMB16.1 million for the last corresponding period. The decrease was mainly due to the redemption of some promissory notes and the conversion of a convertible bond during the period under review.

## INCOME TAX EXPENSES

During the period under review, income tax expenses of the Group was approximately RMB11.5 million, representing a decrease by approximately 24.8% or approximately RMB3.8 million as compared to RMB15.3 million for the last corresponding period. The Group's effective tax rate was approximately 26.7% for the period under review and 21.6% for the last corresponding period. The increase in effective tax rate was mainly because of the increase in non-deductible expenses. The packaging PRC operational company continues to enjoy preferential income tax rate of 15% and the mobile gaming PRC operational company is entitled to enjoy preferential income tax treatment of income tax exemption for the first two years when it became profitable, followed by three years preferential income tax rate of 12.5%. The three years' preferential income tax commenced from 1 January 2016.

## PROFIT FOR THE PERIOD

As a combined result of the factors discussed above, our profit for the period decreased from approximately RMB55.4 million for the last corresponding period by approximately RMB23.7 million or approximately 42.8% to approximately RMB31.7 million for the period under review. Our net profit margin decreased from 11.0% for the last corresponding period to 6.4% for the period under review.

## LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group maintained in healthy liquidity position with working capital financed by internal resources, bank borrowings, Promissory Notes and Convertible Bonds. As at 30 June 2018, the cash and cash equivalents were approximately RMB463.3 million (31 December 2017: approximately RMB463.9 million) mostly denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings which includes bank borrowings, Promissory Notes and Convertible Bonds amounted to approximately RMB305.0 million (31 December 2017: approximately RMB364.1 million). As at 30 June 2018, approximately 17.0% (31 December 2017: approximately 14.6%) of the total borrowings were denominated in Renminbi and approximately 83.0% (31 December 2017: approximately 85.4%) 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 bank borrowings, Promissory Notes and Convertible Bonds, divided by total equity. The gearing ratio of the Group as at 30 June 2018 and 31 December 2017 were approximately 35.1% and approximately 45.8% respectively.

On 14 May 2018, HK\$8,333,333 of Bonds 1 was converted to 9,803,922 shares at a conversion price of HK\$0.85 per share.

On 20 May 2018, the Promissory Note and Convertible Bonds ("Note and Bonds 2") issued on 20 May 2016 with principal amount of HK\$120,000,000 and remaining amount of HK\$6,666,667, respectively were extended for one year. The Note and Bonds 2 may be redeemed anytime at the option of the Group. The Note and Bonds 2 bear a fixed coupon interest rate at 7.5% per annum payable semi-annually.





## MANAGEMENT DISCUSSION AND ANALYSIS

On 19 June 2018, HK\$40,000,000 of the Promissory Note (“Note 1”) issued on 19 June 2015 was repaid and the Company entered into supplementary deeds with the noteholder and the noteholder agreed to extend the maturity date of the remaining HK\$40,000,000 to 20 May 2019 and the fixed coupon interest rate amended to 8.5% per annum payable semi-annually.

### INVENTORIES

As at 30 June 2018, the inventories carried a total worth of approximately RMB56.9 million which was more than the amount of approximately RMB30.0 million as at 31 December 2017. The inventory turnover increased by 5 days to 25 days compared to 20 days as at 31 December 2017.

### TRADE RECEIVABLES

As at 30 June 2018, the trade receivables amounted to approximately RMB155.3 million (31 December 2017: approximately RMB140.5 million). The trade receivables turnover days increased by 14 days to 67 days compared to 53 days as at 31 December 2017.

### TRADE PAYABLES

As at 30 June 2018, the trade payables amounted to approximately RMB114.2 million (31 December 2017: approximately RMB77.4 million). The trade payables turnover days increased by 5 days to 50 days compared to 45 days as at 31 December 2017.

## OUTLOOK

### Mobile gaming segment

Looking forward, the Group will devote more efforts to strengthen market research and enrich the graphics design and content of its self-developed games so as to enhance users’ game playing experience. The Group expects to launch multiple new games in 2018, with focus on H5 games. Included in the pipeline is a number of mobile games and H5 games which is expected to drive the Group’s mobile gaming revenue to a new level in 2018. The Group will also continue to explore and develop new H5 games which is increasing popular in the PRC and has received very positive feedback in the market.

We believe that, through our dedication and accumulated experience in mobile games, constant innovations and persistence in our player-oriented philosophy, we will certainly be able to achieve our goal of driving higher growth and profitability to the Group.

### Packaging segment

The Group will invest in upgrading the existing production facilities with more advance machinery and equipment to enhance our product quality, production capacity and efficiency in order to cope with the recent development trends in the high end packaging markets. High end consumer products manufacturer requires cartons with high resolution prints or graphics for packaging purposes. These production methods, with precise specifications and lamination requirements, will inevitably involve offset-printing method that would enhance the appeal of the underlying products. With the upgrading of existing facilities, it is expected that our product range will be widen to satisfy the ever changing customers’ need.

The Group is evaluating investment opportunities across various parts of the internet related and technology industry. The Group will look beyond the gaming space and diversify into the broader internet or technology investment opportunities that can drive higher growth and profitability for the Group.



# MANAGEMENT DISCUSSION AND ANALYSIS

## EMPLOYEES

As at 30 June 2018, the Group had 728 full time employees in total (31 December 2017: 726). 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.

## SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholders' resolution passed on 13 December 2013 (the "Share Option Scheme") as incentives or rewards to eligible participants who means full-time or part-time employees of our Company or members of our Group, including Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of our Group. The Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Share Option Scheme is valid and effective during the period commencing on 13 January 2014 and ending on 12 January 2024, being the date falling 10 years from the date on which the Share Option Scheme becomes unconditional.

At 30 June 2018, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was nil (2017: 40,000,000).

A summary of the Share Option Scheme is as follows:

### **Basis of determining the exercise/subscription price**

The subscription price for the shares subject for any option under the Share Option Scheme shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share. A total of 80,000,000 share options have been granted under the Share Option Scheme since its adoption.

### **Maximum number of shares**

The total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10 percent of the shares in issue as at 12 December 2013 (i.e. 800,000,000 shares) i.e. 80,000,000 shares unless refreshed by the shareholders. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes adopted by the Group from time to time exceeds 30 percent of the shares in issue.

### **Maximum entitlement of each participant**

The total number of shares issued and to be issued upon exercise of the option granted to a participant under the Share Option Scheme in any 12-month period must not exceed one percent of all the shares in issue from time to time unless a further grant to such participant is approved by the shareholders in general meeting.

### **Time for acceptance of option**

A share option will be offered for acceptance for a period of 28 days from the date on which the option is granted.

### **Amount payable on application or acceptance of option**

HK\$1.00



## MANAGEMENT DISCUSSION AND ANALYSIS

### Minimum and maximum period for the holding of a share option before it can be exercised

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised provided that the period within which the option must be exercised must not be more than 10 years from the date of the grant of the option.

During the six months ended 30 June 2018, the details of the movements in the share options granted to the Company's employees under the Share Option Scheme are as follows:

Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price per Share HK\$	Outstanding at beginning of the period	Granted during the period	Exercised during the period	Lapsed/cancelled during the period	Outstanding at end of the period
24/04/15	24/04/15 to 23/04/18	1.09	20,000,000	-	(20,000,000)	-	-
24/04/15	24/04/16 to 23/04/18	1.09	20,000,000	-	(20,000,000)	-	-
Total			40,000,000	-	(40,000,000)	-	-

### 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 2018 (six months ended 30 June 2017: nil) to the shareholders.

### CAPITAL COMMITMENTS

As at 30 June 2018, the Group's capital commitments were approximately RMB142.0 million (31 December 2017: approximately RMB60.0 million).



## MANAGEMENT DISCUSSION AND ANALYSIS

### **CONTINGENT LIABILITIES**

As at 30 June 2018, the Group did not have any material contingent liabilities or guarantees.

### **PLEDGE OF ASSETS**

As at 30 June 2018, the Group pledged certain assets with a carry value of approximately RMB85.6 million (31 December 2017: approximately RMB98.3 million) as collateral for the Group's bills payable and 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 2018.



## 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 2018.

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

As at 30 June 2018, 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 as set out in Appendix 10 to the Listing Rules (the "Model Code"):

#### Long positions in shares of the Company

Name of director	Capacity/nature of interest	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 2018, 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 2018, 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	2	408,000,000	
	Interest of spouse	2	7,500,000	30.16%
Wealthy Achievers Limited	Beneficial owner	3	352,857,143	25.62%
Mr. Peng Dongmiao	Interest of a controlled corporation	4	352,857,143	25.62%

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 the 408,000,000 Shares owned by Novel Blaze by virtue of the SFO.
2. The disclosed interest represents the interest in the Company held by Novel Blaze which is wholly and beneficially owned by Ms. Zheng Xue Xia. Therefore, Ms. Zheng is deemed to be interested in the interest of Novel Blaze in the Company by virtue of the SFO. In addition, Ms. Zheng is the wife of Mr. Sun Shao Hua and is deemed to be interested in the shares which are interested 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 the 352,857,143 Shares owned by Wealthy Achievers Limited by virtue of the SFO.
4. The disclosed interest represents the interest in the Company held by Wealthy Achievers Limited which is wholly and beneficially owned by Mr. Peng Dongmiao. Therefore, Mr. Peng is deemed to be interested in the interest of Wealthy Achievers Limited in the Company by virtue of 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 2018.

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, among 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. 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 2018 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 2018 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

### CHANGES IN DIRECTOR’S INFORMATION

On 5 July 2018, Mr. Ma Yiu Ho, Peter, an Independent Non-executive Director, resigned as an Independent non-executive director of Convoy Global Holdings Limited (Stock code: 1019).

On 12 July 2018, Mr. Liu Dajin, an Independent Non-executive Director, was appointed as professor of the Faculty of Management of the Chengyi University College, Jimei University (集美大學誠信毅學院).

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
<b>Revenue</b>	4	<b>493,522</b>	503,919
Cost of sales		<b>(319,959)</b>	(344,975)
<b>Gross profit</b>		<b>173,563</b>	158,944
Other revenue	5	<b>2,181</b>	2,876
Other income	6	<b>508</b>	36
Selling and distribution expenses		<b>(79,855)</b>	(34,680)
Administrative expenses		<b>(25,892)</b>	(21,455)
Amortisation of intangible assets		<b>(4,564)</b>	(14,215)
Gain on early redemption of promissory notes		<b>759</b>	–
Profit from operating before fair value change		<b>66,700</b>	91,506
Change in fair value of derivative financial instruments		<b>(8,382)</b>	101
Change in fair value of contingent consideration payable		<b>–</b>	(4,780)
Profit from operations		<b>58,318</b>	86,827
Finance costs	8	<b>(15,101)</b>	(16,117)
Profit before tax	7	<b>43,217</b>	70,710
Income tax expenses	9	<b>(11,531)</b>	(15,300)
<b>Profit for the period</b>		<b>31,686</b>	55,410
<b>Other comprehensive (loss)/income for the period, net of tax</b> <i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		<b>(3,033)</b>	11,813
Other comprehensive (loss)/income for the period, net of tax		<b>(3,033)</b>	11,813
<b>Total comprehensive income for the period, net of tax</b>		<b>28,653</b>	67,223
<b>Profit attributable to owners of the Company</b>		<b>31,686</b>	55,410
<b>Total comprehensive income attributable to owners of the Company</b>		<b>28,653</b>	67,223
<b>Earnings per share attributable to owners of the Company</b>			
– Basic (RMB cents)	11	<b>2.35</b>	4.83
– Diluted (RMB cents)	11	<b>2.35</b>	4.20



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	12	128,933	134,655
Prepaid lease payments		2,165	2,195
Long-term prepayment		3,080	5,199
Goodwill		429,857	429,857
Intangible assets		10,385	7,165
		<b>574,420</b>	579,071
<b>Current assets</b>			
Inventories		56,910	30,008
Trade receivables	13	155,292	140,539
Prepayments, deposits and other receivables		80,841	75,777
Derivative financial instruments	16,17	28	9,596
Pledged bank deposits		–	12,000
Cash and bank balances		475,263	463,942
		<b>768,334</b>	731,862
<b>Current liabilities</b>			
Trade, bills, other payables and accruals	14	162,785	132,564
Bank borrowings	15	52,000	53,000
Derivative financial instruments	16,17	–	811
Promissory notes	16	172,755	166,563
Convertible bonds	17	7,409	16,922
Deferred revenue	18	4,587	16,362
Tax payables		2,541	3,033
		<b>402,077</b>	389,255
<b>Net current assets</b>		<b>366,257</b>	342,607
<b>Total assets less current liabilities</b>		<b>940,677</b>	921,678
<b>Non-current liability</b>			
Promissory notes	16	72,858	127,599
		<b>72,858</b>	127,599
<b>Net assets</b>		<b>867,819</b>	794,079
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	19	11,161	10,760
Reserves		856,658	783,319
<b>Total equity</b>		<b>867,819</b>	794,079

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company								
	Reserves								Total
	Share capital	Share premium	Share option reserve	Convertible bonds reserve	Statutory reserve	Other reserve	Exchange reserve	Retained profit	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2017 (Audited)	9,150	301,583	22,594	4,706	36,869	15,901	(19,639)	208,736	579,900
Profit for the period	-	-	-	-	-	-	-	55,410	55,410
Other comprehensive loss for the period	-	-	-	-	-	-	11,813	-	11,813
Total comprehensive income for the period	-	-	-	-	-	-	11,813	55,410	67,223
Dividend paid	-	(20,023)	-	-	-	-	-	-	(20,023)
Issue of ordinary shares upon conversion of convertible bonds	109	10,269	-	(1,533)	-	-	-	-	8,845
Transfer to statutory reserve	-	-	-	-	3,339	-	-	(3,339)	-
At 30 June 2017 (Unaudited)	9,259	291,829	22,594	3,173	40,208	15,901	(7,826)	260,807	635,945
At 1 January 2018 (Audited)	10,760	550,587	14,318	2,121	49,850	15,901	5,438	145,104	794,079
Profit for the period	-	-	-	-	-	-	-	31,686	31,686
Other comprehensive income for the period	-	-	-	-	-	-	(3,033)	-	(3,033)
Total comprehensive income for the period	-	-	-	-	-	-	(3,033)	31,686	28,653
Exercise of share option	322	49,103	(14,318)	-	-	-	-	-	35,107
Issue of ordinary shares upon conversion of convertible bonds	79	11,596	-	(1,695)	-	-	-	-	9,980
<b>At 30 June 2018 (Unaudited)</b>	<b>11,161</b>	<b>611,286</b>	<b>-</b>	<b>426</b>	<b>49,850</b>	<b>15,901</b>	<b>2,405</b>	<b>176,790</b>	<b>867,819</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Operating activities</b>		
Cash (used in)/generated from operations	<b>(40,932)</b>	64,869
PRC tax paid	<b>(2,233)</b>	(15,526)
<b>Net cash (used in)/generated from operating activities</b>	<b>(43,165)</b>	49,343
<b>Investing activities</b>		
Interest received	<b>755</b>	1,957
Prepayment for long-term prepayment	<b>2,119</b>	(895)
Purchase of property, plant and equipment	<b>(5,182)</b>	(1,953)
Development cost spent on intangible assets	<b>(7,784)</b>	(4,592)
<b>Net cash used in investing activities</b>	<b>(10,092)</b>	(5,483)
<b>Financing activities</b>		
Interest paid on convertible bonds and promissory notes	<b>(14,917)</b>	(15,668)
Proceeds from bank borrowings	<b>13,000</b>	50,000
Repayments of bank borrowings	<b>(14,000)</b>	(88,140)
Bank borrowings interest paid	<b>(1,711)</b>	(2,506)
Early redemption of promissory notes	<b>51,594</b>	–
Exercise of share option	<b>35,192</b>	–
Dividend paid	–	(20,023)
<b>Net cash generated from/(used in) financing activities</b>	<b>69,158</b>	(76,337)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>15,901</b>	(32,477)
Cash and cash equivalents at the beginning of the period	<b>463,942</b>	374,335
Effect of exchange rate changes on the balance of cash held in foreign currencies	<b>(4,580)</b>	(622)
<b>Cash and cash equivalents at the end of the period</b>	<b>475,263</b>	341,236
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>475,263</b>	341,236



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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 2017 as contained in the Company’s annual report 2017 (the “Annual Report 2017”), 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 2018.

## 2. CHANGE IN ACCOUNTING POLICIES

### (a) 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 2017, 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 2018.

The adoption of HKFRS 9 and HKFRS 15 does not have a significant impact on the Group. Details of the changes in accounting policies are discussed in Note 2(b) for HKFRS 9 and Note 2(c) for HKFRS 15. The adoption of other new and revised HKFRSs has no material effect on the condensed consolidated financial statements.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group’s results of operations and financial position.

### (b) HKFRS 9 Financial instruments

The Group has initially adopted HKFRS 9 Financial instruments from 1 January 2018. HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Based on the assessment by the Group, there would be no retrospective item that existed and no significant cumulative effect of the initial application of HKFRS 9 at 1 January 2018 in accordance with the transition requirement.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (b) HKFRS 9 Financial instruments (continued)

#### (i) Classification and measurement

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer’s perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (b) HKFRS 9 Financial instruments (continued)

#### (i) *Classification and measurement (continued)*

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalents, pledged bank deposits, and trade and other receivables, for the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

#### (ii) *Credit losses*

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

As at 30 June 2018, the Group has applied the simplified approach and recorded lifetime ECLs on trade receivables, and general approach and recorded 12-month ECLs on financial assets included in prepayments, deposits and other receivables. The Group determined that there are no significant financial impact arising from these changes.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (c) HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Sale of goods
- Mobile and web games operation – Gross basis (Exclusive operation)
- Mobile and web games operation – Net basis (Joint operation)
- Mobile and web game licensing
- Other services income
- Interest income

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

#### (i) Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 2. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

### (c) HKFRS 15 Revenue from Contracts with Customers (continued)

#### (i) Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group’s revenue recognition.

## 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 gaming 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 2018 (six months ended 30 June 2017: Nil).



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 3. OPERATING SEGMENT (CONTINUED)

### 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 gaming products		Consolidated	
	6 months ended 30 June 2018 RMB'000	6 months ended 30 June 2017 RMB'000	6 months ended 30 June 2018 RMB'000	6 months ended 30 June 2017 RMB'000	6 months ended 30 June 2018 RMB'000	6 months ended 30 June 2017 RMB'000
Revenue	305,903	375,259	187,619	128,660	493,522	503,919
Segment results	14,062	55,226	55,375	48,948	69,437	104,174
Unallocated corporate income					-	1,517
Unallocated corporate expenses					(12,830)	(21,370)
Unallocated finance costs					(13,390)	(13,611)
Profit before tax					43,217	70,710
Income tax expenses					(11,531)	(15,300)
Profit for the period					31,686	55,410

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 gaming products		Consolidated	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Segment assets	648,494	622,289	687,674	666,598	1,336,168	1,288,887
Unallocated corporate assets					6,586	22,046
Total assets					1,342,754	1,310,933
Segment liabilities	169,415	152,930	17,623	40,562	187,038	193,492
Unallocated corporate liabilities					287,897	323,362
Total liabilities					474,935	516,854

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 2018

## 3. OPERATING SEGMENT (CONTINUED)

### Other segment information

#### Six months ended 30 June 2018

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile gaming products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditures	(5,139)	(7,784)	(43)	(12,966)
Depreciation of property, plant and equipment	(10,798)	(67)	(23)	(10,888)
Amortisation of intangible assets	–	(4,564)	–	(4,564)
Change in fair value of derivative financial instruments	–	–	(8,382)	(8,382)
Finance costs	(1,619)	(92)	(13,390)	(15,101)

#### Six months ended 30 June 2017

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile gaming products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditures	(1,875)	(4,657)	(13)	(6,545)
Depreciation of property, plant and equipment	(7,409)	(87)	(2)	(7,498)
Amortisation of intangible assets	–	(14,215)	–	(14,215)
Change in fair value of derivative financial instruments	–	–	101	101
Change in fair value of contingent consideration payable	–	–	(4,780)	(4,780)
Finance costs	(2,444)	(62)	(13,611)	(16,117)

During the six months ended 30 June 2018 and 2017, all revenue is derived from customers in the PRC.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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:

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of paper-based packaging products	305,903	375,259
Development, distribution and operation of mobile gaming products	187,619	128,660
	<b>493,522</b>	<b>503,919</b>

## 5. OTHER REVENUE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of residual materials	1,426	919
Bank interest income	755	1,957
	<b>2,181</b>	<b>2,876</b>

## 6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government subsidies	507	31
Sundry incomes	1	5
	<b>508</b>	<b>36</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
<b>Staff costs:</b>		
Employee benefit expense (including directors' remuneration)		
Wages and salaries	17,413	25,160
Retirement benefit schemes contributions	1,043	2,397
	<b>18,456</b>	<b>27,557</b>
<b>Other items:</b>		
Cost of inventories sold	249,419	293,276
Depreciation of property, plant and equipment	10,888	7,498
Amortisation of prepaid lease payments	30	30
Amortisation of intangible assets	4,564	14,215
Minimum lease payments under operating leases of rented premises	747	411
Research and development costs	414	5,026

## 8. FINANCE COSTS

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest expenses on bank borrowings wholly repayable within five years	1,711	2,506
Imputed interest on promissory notes	12,324	10,904
Imputed interest on convertible bonds	1,066	2,707
	<b>15,101</b>	<b>16,117</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
The PRC Enterprise Income Tax		
– Current tax	9,299	14,402
– Under provision in prior period	2,232	2,824
	<b>11,531</b>	17,226
Deferred tax		
– Current period	–	(1,926)
Total income tax recognised in profit or loss	<b>11,531</b>	15,300

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period (six months ended 30 June 2017: 16.5%). No Hong Kong profits tax is provided for the period as the Group does not have any assessable profit from the Group's operation located in Hong Kong.

The statutory enterprise income tax rate for the six months ended 30 June 2018 at the PRC is 25% (six months ended 30 June 2017: 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 six months ended 30 June 2017, 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 is entitled to enjoy preferential income tax treatment of income tax exemption for the first two years when it became profitable, followed by three years preferential income tax rate of 12.5%. The three years' preferential income tax commencing from 1 January 2016.

## 10. DIVIDENDS

The Directors do not recommend payment of any dividends for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

On 30 June 2017, a special dividend of 2.0 HK cents per share was paid.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 11. EARNINGS PER SHARE

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

### Earnings

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Profit attributable to owners of the Company for the purpose of basic earnings per share	<b>31,686</b>	55,410
Effect of dilutive potential ordinary shares:		
Change in fair value of contingent consideration payable, net of tax	–	3,991
Profit attributable to owners of the Company for the purpose of diluted earnings per share	<b>31,686</b>	59,401

### Number of shares

	Six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,347,167,253</b>	1,146,519,129
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	–	44,192,355
Settlement of contingent consideration payable	–	222,239,857
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,347,167,253</b>	1,412,951,341

Basic earnings per share for the periods ended 30 June 2018 and 2017 are calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of shares in issue during the period.

Diluted earnings per share for the periods ended 30 June 2018 and 2017 is calculated by adjusting the weighted average number of shares in issue during the period to assume conversion of all potential dilutive ordinary shares. The weighted average number of ordinary shares as above is adjusted by the number of shares that would have been issued assuming the exercise of share options and the expected number of shares to be issued for the settlement of the contingent consideration payable.

For the period ended 30 June 2018, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since it would result in an anti-dilutive effect on earnings per share.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 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	Total RMB'000
<b>Cost</b>						
At 31 December 2017 and 1 January 2018 (Audited)	132,151	1,003	743	71,285	126	205,308
Additions	-	139	-	-	5,043	5,182
Disposals	-	(333)	-	-	-	(333)
Exchange realignment	-	-	-	-	3	3
At 30 June 2018 (Unaudited)	132,151	809	743	71,285	5,172	210,160
<b>Accumulated depreciation</b>						
At 31 December 2017 and 1 January 2018 (Audited)	(51,692)	(735)	(510)	(17,695)	(22)	(70,654)
Charge for the period	(5,726)	(76)	(37)	(1,693)	(3,356)	(10,888)
Written back on disposals	-	316	-	-	-	316
Exchange realignment	-	-	-	-	(1)	(1)
At 30 June 2018 (Unaudited)	(57,418)	(495)	(547)	(19,388)	(3,379)	(81,227)
<b>Carrying amounts</b>						
<b>At 30 June 2018 (Unaudited)</b>	<b>74,733</b>	<b>314</b>	<b>196</b>	<b>51,897</b>	<b>1,793</b>	<b>128,933</b>
At 31 December 2017 (Audited)	80,461	267	233	53,590	104	134,655

### Assets pledged as security

As at 30 June 2018, machinery with carrying amount of approximately RMB36,260,000 (31 December 2017: RMB36,667,000) (Note 20) have been pledged to secure bank borrowings (Note 15) granted to the Group.

As at 30 June 2018, no computer and office equipment (31 December 2017: Nil) have been pledged to secure bank borrowings (Note 15) granted to the Group.

As at 30 June 2018, buildings with carrying amount of approximately RMB47,132,000 (31 December 2017: RMB47,388,000) (Note 20) 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 2018

## 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 for doubtful debts:

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
0 – 30 days	<b>67,047</b>	63,933
31 – 60 days	<b>67,247</b>	54,834
61 – 90 days	<b>20,998</b>	21,772
	<b>155,292</b>	140,539

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 doubtful debts 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 2018, no trade receivables were impaired (31 December 2017: Nil). The Directors of the Company considered no provision for impairment is recognised during the period (six months ended 30 June 2017: Nil) as these independent customers had no recent history of default.

## 14. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Trade payables	<b>114,174</b>	77,381
Bills payable	–	24,000
Accruals	<b>8,485</b>	29,928
Other payables	<b>40,126</b>	1,255
	<b>162,785</b>	132,564



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 14. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS (CONTINUED)

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

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
0 – 30 days	55,852	45,571
31 – 60 days	58,315	31,502
61 – 90 days	–	308
91 – 180 days	7	–
	<b>114,174</b>	<b>77,381</b>

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.

As at 31 December 2017, the bills payable of approximately RMB24,000,000 was secured by the bank deposits.

## 15. BANK BORROWINGS

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Secured-repayable within one year	52,000	53,000

All the bank borrowings were denominated in RMB. As at 30 June 2018 and 31 December 2017, the bank borrowings were secured by certain property, plant and equipment and prepaid lease payments held by the Group as set out in Note 12.

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

	<b>30 June 2018 (Unaudited)</b>	31 December 2017 (Audited)
Fixed rate	<b>5.4% – 7.7%</b>	4.6% – 7.7%

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. PROMISSORY NOTES

The promissory notes issued have been split as to the derivative financial assets component (term extension derivative component and redemption option derivative component embedded in promissory notes) and the financial liability component (promissory notes liabilities). The following tables summarise the movements of derivative financial assets and financial liability components during the six months ended 30 June 2018 and the year ended 31 December 2017.

### Derivative financial assets – Term extension derivative component:

	<b>Promissory Note 3</b>	<b>Total</b>
	RMB'000	RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	2,427	2,427
Fair value change	(2,368)	(2,368)
Exchange realignment	(59)	(59)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>–</b>

### Derivative financial assets – Redemption option derivative component:

	<b>Promissory Note 1</b>	<b>Promissory Note 2</b>	<b>Promissory Note 3</b>	<b>Promissory Note 4</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	888	1,899	3,420	1	6,208
Fair value change	(867)	(1,853)	(3,337)	(1)	(6,058)
Exchange realignment	(21)	(46)	(83)	–	(150)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. PROMISSORY NOTES (CONTINUED)

### Financial liability component – Promissory notes liabilities:

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Current portion	<b>172,755</b>	166,563
Non-current portion	<b>72,858</b>	127,599
	<b>245,613</b>	294,162

	<b>Promissory Note 1 RMB'000</b>	<b>Promissory Note 2 RMB'000</b>	<b>Promissory Note 3 RMB'000</b>	<b>Promissory Note 4 RMB'000</b>	<b>Total RMB'000</b>
At 31 December 2017 and 1 January 2018 (Audited)	66,625	57,009	99,938	70,590	294,162
Early redemption of promissory notes	(32,499)	(19,852)	–	–	(52,351)
Imputed interest charged	2,672	2,794	4,110	2,748	12,324
Coupon interest payable	(2,672)	(2,190)	(4,110)	(1,450)	(10,422)
Exchange realignment	(379)	5	1,304	970	1,900
<b>At 30 June 2018 (Unaudited)</b>	<b>33,747</b>	<b>37,766</b>	<b>101,242</b>	<b>72,858</b>	<b>245,613</b>

### Promissory Note 1

On 19 June 2015, the Company issued a redeemable 7.5% promissory note with the principal amount of HK\$80,000,000 and interest payable half yearly (the "Promissory Note 1").

The Promissory Note 1 has a term of one year and the holder shall extend the Promissory Note 1 on the same terms and conditions of the Promissory Note 1 for a further period of one year (the "Extended Term of the Promissory Note 1") provided that the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000, provided that the noteholder of Promissory Note 1 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Company may, prior to the maturity date of the Promissory Note 1 from and including the date falling 12 months from the date of issue redeem the outstanding principal amount of the Promissory Note 1, with all amounts of accrued interests, handling fee and all other outstanding amount payable by the Company to the holder of the Promissory Note 1, and without penalty.

The Promissory Note 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. PROMISSORY NOTES (CONTINUED)

### **Promissory Note 1 (continued)**

The Promissory Note 1 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 1 at the date of issue was estimated to be approximately RMB64,534,000 based on the effective interest rate of 6.3% per annum. The term extension derivative component is measured at fair value with changes in fair value recognised in profit or loss.

On 19 June 2016, the maturity date of Promissory Note 1 extended to 19 June 2017. As a result, the effective interest rate of Promissory Note 1 changed to 8.5%.

On 19 June 2017, the maturity date of Promissory Note 1 was further extended to 19 June 2018. The effective interest rate of Promissory Note 1 remained unchanged.

On 20 June 2018, the Promissory Note 1 with principal amount of HK\$40,000,000 was early redeemed. The remaining amount of HK\$40,000,000 was further extended to 19 June 2019. The effective interest rate of Promissory Note 1 remained unchanged.

### **Promissory Note 2**

On 28 April 2016, the Company issued a redeemable 9% promissory note with the principal amount of HK\$200,000,000 and interest payable yearly (the "Promissory Note 2").

The Promissory Note 2 has a term of three years. The Company may, at any time prior to the maturity date of the Promissory Note 2, redeem the outstanding principal amount of the Promissory Note 2, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 2.

The Promissory Note 2 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 2 at the date of issue was estimated to be approximately RMB159,859,000 based on the effective interest rate of 10.9% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

During the year ended 31 December 2016, the Promissory Note 2 with principal amount of HK\$130,000,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over i) the carrying value of the financial liability component; and ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB5,112,000 was recognised by the Group as a loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 16. PROMISSORY NOTES (CONTINUED)

### **Promissory Note 2 (continued)**

On 18 April 2018, the Promissory Note 2 with principal amount of HK\$23,500,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB758,925 was recognised by the Group as gain on early redemption of promissory note and credited to the consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2018.

### **Promissory Note 3**

On 20 May 2016, the Company issued a redeemable 8.5% promissory note with the principal amount of HK\$120,000,000 and interest payable yearly (the "Promissory Note 3").

The Promissory Note 3 has a term of one year and the holder shall extend the Promissory Note 3 on the same terms and conditions of the Promissory Note 3 for a further period of one year (the "Extended Term of the Promissory Note 3") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000, provided that the noteholder of Promissory Note 3 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Promissory Note 3 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 3 at the date of issue was estimated to be approximately RMB100,015,000 based on the effective interest rate of 9.1% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 20 May 2017, the maturity date of Promissory Note 3 extended to 20 May 2018. As a result, the effective interest rate of Promissory Note 3 changed to 8.5%.

On 20 May 2018, the maturity date of Promising Note 3 was extended to 20 May 2019. The effective interest rate of Promissory Note 3 remained unchanged.

### **Promissory Note 4**

On 19 July 2017, the Company issued a redeemable 4% promissory note with the principal amount of HK\$90,000,000 and interest payable yearly (the "Promissory Note 4"). The Promissory Note 4 has a term of two years. The Company may, at any time prior to the maturity date of the Promissory Note 4, redeem the outstanding principal amount of the Promissory Note 4, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 4.

The Promissory Note 4 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 4 at the date of issue was estimated to be approximately RMB70,590,000 based on the effective interest rate of 8.2% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. CONVERTIBLE BONDS

The convertible bonds issued have been split as to the derivative financial asset component (redemption option derivative component embedded in convertible bonds); the derivative financial liability component (term extension derivative component embedded in convertible bonds); the financial liability component (convertible bonds) and equity component (convertible bonds reserve). The following tables summarise the movements of derivative financial assets; derivative financial liabilities; financial liabilities and equity component during the six months ended 30 June 2018.

### Derivative financial assets – Redemption option derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	206	755	961
Conversion of convertible bonds	(163)	–	(163)
Fair value change	(38)	(709)	(747)
Exchange realignment	(5)	(18)	(23)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>28</b>	<b>28</b>

### Derivative financial liabilities – Term extension derivative component:

	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	811	811
Conversion of convertible bonds	–	–
Fair value change	(791)	(791)
Exchange realignment	(20)	(20)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>–</b>

### Financial liabilities – Financial liability component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	10,021	6,901	16,922
Conversion of convertible bonds	(10,258)	–	(10,258)
Imputed interest charged	766	631	1,397
Coupon interest payable	(285)	(228)	(513)
Exchange realignment	(244)	105	(139)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>7,409</b>	<b>7,409</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. CONVERTIBLE BONDS (CONTINUED)

### Reserves – Equity component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018 (Audited)	1,695	426	2,121
Conversion of convertible bonds	(1,695)	–	(1,695)
<b>At 30 June 2018 (Unaudited)</b>	<b>–</b>	<b>426</b>	<b>426</b>

### Convertible bond 1

On 19 June 2015, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK\$20,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 1"). The Convertible Bond 1 entitles the holder to convert to ordinary shares of the Company at a conversion price of HK\$0.85 per share and will be converted into 23,529,411 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 1.

The Convertible Bond 1 has a term of one year and the holder shall extend the Convertible Bond 1 on the same terms and conditions of the Convertible Bond 1 for a further period of one year (the "Extended Term of the Convertible Bond 1") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000 ("Condition 1"), provided that the holder of Convertible Bond 1 may only make up to two extensions under Condition 1 and the aggregate extended term for the above extensions shall not exceed two years.

Subject to the Promissory Note 1 (Note 16) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 1 at any time during the period between the first day of the twelfth month following the date of issue of the Convertible Bond 1 and the last day immediately preceding the maturity date of the Convertible Bond 1.

Unless previously redeemed, converted, purchased and cancelled, the Company shall pay on the maturity date an aggregate price of (i) the outstanding principal amount of the Convertible Bond 1 on the maturity date, (ii) 12% of the outstanding principal amount on the maturity date of the Convertible Bond 1 (exclusive of interest) multiplied by the term or the Extended Term of the Convertible Bond 1 expressed in years for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest and handling fee and unpaid default interest accrued in respect of such outstanding principal amount of the Convertible Bond 1 to be redeemed, and (iv) all other outstanding amounts payable by the Company to the holder of the Convertible Bond 1.

The Convertible Bond 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. CONVERTIBLE BONDS (CONTINUED)

### Convertible bond 1 (continued)

The Convertible Bond 1 contains four components: redemption option derivative component, term extension derivative component, financial liability component and equity component. The equity component is presented in equity heading "convertible bonds reserve". The financial liability component is initially recognised at fair value and carried at amortised cost using effective interest rate. The effective interest rate of the financial liability component on initial recognition is 11.8% per annum. The redemption option derivative component and term extension derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 10 September 2015, the Group entered into supplementary deeds, agreed to amend the provisions of the Company's early redemption right under the Convertible Bond 1 ("Modification"). The amended term is unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 1 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 1 to be redeemed, (ii) return of 17.5% per annum on the outstanding principal amount of the Convertible Bond 1 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The effective interest rate after 10 September 2015 is 14.31%.

In valuing the derivative components, the Black-Scholes with Trinomial Tree method were used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follows:

	<b>At 10 September 2015</b>
Time to maturity (depends on extension condition)	0.77 to 2.77 years
Share price	HK\$0.84
Share price volatility	64.28% to 85.09%
Earning volatility	69.04% to 85.09%
Earning growth rate	47.58%
Conversion price	HK\$0.85
Discount rate	14.69% to 15.37%

Details of Convertible Bond 1 on Modification to be approximately as follows:

	<b>At 10 September 2015</b>
	RMB'000
Liability component	17,602
Equity component	4,067
Redemption option derivative component	(149)
Term extension derivative component	1,755
	<b>23,275</b>





# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. CONVERTIBLE BONDS (CONTINUED)

### Convertible bond 1 (continued)

On 19 June 2016, the maturity date of Convertible Bond 1 was extended to 19 June 2017. As a result, the effective interest rate of Convertible Bond 1 changed to 23.4%.

On 10 April 2017, Convertible Bond 1 was partly converted into 7,843,136 ordinary shares of the Company.

On 19 June 2017, the maturity date of Convertible Bond 1 was further extended to 19 June 2018. As a result, the effective interest rate of Convertible Bond 1 changed to 21.5%.

On 3 November 2017, Convertible Bond 1 was partly converted into 5,882,352 ordinary shares of the Company.

On 14 May 2018, the remaining Convertible Bond 1 was converted into 9,803,922 ordinary shares of the Company.

### Convertible Bond 2

On 20 May 2016, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK\$30,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 2"). The Convertible Bond 2 entitles the holder to convert to ordinary shares of the Company at a conversion price of HK\$0.75 per share and will be converted into 40,000,000 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 2.

The Convertible Bond 2 has a term of one year and the holder shall extend the Convertible Bond 2 on the same terms and conditions of the Convertible Bond 2 for a further period of one year (the "Extended Term of the Convertible Bond 2") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 ("Condition 2"), provided that the holder of Convertible Bond 2 may only make up to two extensions under Condition 2 and the aggregate extended term for the above extensions shall not exceed two years.

Subject to the Promissory Note 3 (Note 16) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 2 at any time during the period between the first day of the twelfth month following the date of issue of the Convertible Bond 2 and the last day immediately preceding the maturity date of the Convertible Bonds.

Unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 2 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 2 to be redeemed, (ii) return of 15% per annum on the outstanding principal amount of the Convertible Bond 2 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 2 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 17. CONVERTIBLE BONDS (CONTINUED)

### Convertible Bond 2 (continued)

The Convertible Bond 2 has the benefit of the security constituted by the share charges created by the Company, Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee of Mr. Sun Shao Hua, a Director of the Company, and Ms. Zheng Xue Xia, the spouse of Mr. Sun Shao Hua.

The effective interest rate at issue of Convertible Bond 2 is 11.6%.

In valuing the derivative components, the Black-Scholes model with Trinomial Tree method were used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follows:

	<b>At 20 May 2016</b>
Time to maturity (depends on extension condition)	3 years
Share price	HK\$0.71
Share price volatility	55.45%
Price-to-EBITDA ratio	5.67
Conversion price	HK\$0.75
Discount rate	10.03%

On 12 August 2016, Convertible Bond 2 was partly converted into 26,666,666 ordinary shares of the Company.

On 20 May 2017, the maturity date of Convertible Bond 2 was extended to 20 May 2018. As a result, the effective interest rate of Convertible Bond 2 changed to 20.4%.

On 10 April 2017, another 4,444,443 ordinary shares of the Company was partly converted from Convertible Bond 2.

On 20 May 2018, the maturity date of Convertible Bond 2 was extended to 20 May 2019. As a result, the effective interest rate of Convertible Bond 2 changed to 18.1%.

## 18. DEFERRED REVENUE

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Service fee received but related service not rendered	<b>4,587</b>	16,362

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 19. SHARE CAPITAL AND SHARE OPTION SCHEME

### 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 2017 and 1 January 2018, ordinary shares of HK\$0.01 each	1,327,694	13,278	10,760
Issue of shares upon conversion of convertible bonds (Note 17)	9,804	98	79
Exercise of share option	40,000	400	322
<b>At 30 June 2018, ordinary shares of HK\$0.01 each</b>	<b>1,377,498</b>	<b>13,776</b>	<b>11,161</b>

On 23 April and 14 May 2018, 40,000,000 and 9,803,622 ordinary shares were issued respectively in relation to exercise of share option and conversion of Convertible Bond 1.

### Share option scheme

The Company operates a share option scheme ("the Scheme") pursuant to a shareholders' resolution passed on 13 December 2013 for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the Scheme included any full-time or part-time employee of the Company or any member of the Group, including any Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of the Group. The Scheme was valid and effective on 13 January 2014 and, unless otherwise altered or terminated, will remain in full force for a period of ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Subject to the approval of shareholders in general meeting, the Company may refresh the Scheme Mandate Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares in issue as at the date of such shareholders' approval. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other share option schemes exceeds 30% of the shares in issue.

In addition, the maximum number of shares in respect of which share options may be granted to any eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 19. SHARE CAPITAL AND SHARE OPTION SCHEME (CONTINUED)

### Share option scheme (continued)

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1 being payable by the participant. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by our Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option. The exercise of an option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Scheme.

The following table discloses the movements of the Company's share options:

### 30 June 2018

Name or category of participant	Option type	Number of share options					At 30 June 2018	Date of grant of share options (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK\$	Price of Company's share at grant date of share options HK\$
		At 1 January 2018	Granted during the period	Exercised during the period	Forfeited during the period	Expired during the period					
Employees of the Group	2015 tranche 1	20,000,000	-	(20,000,000)	-	-	-	24/04/15 to 23/04/18	1.09	1.09	
Employees of the Group	2015 tranche 2	20,000,000	-	(20,000,000)	-	-	-	24/04/16 to 23/04/18	1.09	1.09	
		40,000,000	-	(40,000,000)	-	-	-				

## 20. PLEDGED ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 15) and bills payable (Note 14) of the Group.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Machinery (Note 12)	36,260	36,667
Buildings (Note 12)	47,132	47,388
Prepaid lease payments	2,225	2,255
Pledged bank deposits	-	12,000
	<b>85,617</b>	<b>98,310</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 21. 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	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Fees	120	106
Other emoluments:		
Salaries, allowances and benefits in kind	3,056	2,920
Retirement benefit schemes contributions	27	54
<b>Total</b>	<b>3,203</b>	<b>3,080</b>

Name of related parties	Relationship	Nature of transactions	Six months ended 30 June	
			2018 RMB'000	2017 RMB'000
鴻聖信息科技(廈門)有限公司	Company controlled by a Director	Office premises rental expenses	347	314
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on Promissory Note 2	2,794	3,207
		Interest expenses on Promissory Note 4	2,748	–

Note:

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 2018, interest expenses of approximately RMB5,542,000 (equivalent to approximately HK\$6,822,000) (six months ended 30 June 2017: approximately RMB3,207,000, equivalent to approximately HK\$3,626,000) was incurred in relation to Promissory Notes 2 and 4 held by Mr. Peng Dongmiao.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 22. COMMITMENTS

### Operating lease commitment

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating lease which fall due as follows:

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Within one year	<b>808</b>	1,467
In the second to fifth year inclusive	<b>2,512</b>	3,076
	<b>3,320</b>	4,543

### Capital commitment

	<b>30 June 2018 RMB'000 (Unaudited)</b>	31 December 2017 RMB'000 (Audited)
Authorised and contracted for capital contributions payable to subsidiaries	<b>60,000</b>	60,000
Capital expenditure on acquiring property, plant and equipment	<b>82,000</b>	–
	<b>142,000</b>	60,000

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### Financial assets and liabilities measured at fair value

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identified assets and liabilities.
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Financial assets and liabilities measured at fair value (continued)

The following table gives information about how the fair values of financial instruments are determined.

Recurring fair value measurement	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Range of significant unobservable inputs
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)			
<b>Financial assets/(liabilities)</b>					
Derivative financial instruments:					
– Redemption option derivative embedded in the promissory note 1	–	888	Level 3	Black-Scholes model with Trinomial Tree method Key input: Discount rate	Discount rate of 12.52% (Note (ii))
Derivative financial instruments:					
– Redemption option derivative embedded in the promissory note 2	–	1,899	Level 3	Hull White model with Trinomial Tree method Key input: Discount rate	Discount rate of 12.10% (Note (ii))
Derivative financial instruments:					
– Term extension derivative embedded in the promissory note 3	–	2,427	Level 3	Black-Scholes model with Trinomial Tree method Key input: Discount rate	Discount rate of 12.52% (Note (iii))
Derivative financial instruments:					
– Redemption option derivative embedded in the promissory note 3	–	3,420	Level 3	Black-Scholes model with Trinomial Tree method Key input: Discount rate	Discount rate of 12.52% (Note (iv))
Derivative financial instruments:					
– Redemption option derivative embedded in the promissory note 4	–	1	Level 3	Hull White model with Trinomial Tree method Key input: Discount rate	Discount rate of 13.10% (Note (v))
Derivative financial instruments:					
– Redemption option derivative embedded in the convertible bond 1	–	206	Level 3	Black-Scholes model with Trinomial Tree method Key input: Discount rate	Discount rate of 10.76% (Note (vi))

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Financial assets and liabilities measured at fair value (continued)

Recurring fair value measurement	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Range of significant unobservable inputs
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)			
<b>Financial assets/(liabilities)</b>					
Derivative financial instruments:					
– Redemption option derivative embedded in the convertible bond 2	28	755	Level 3	Black-Scholes model with Trinomial Tree method Key inputs: Discount rate, Share price volatility	Discount rate of 12.52%; share price volatility of 58.94% (Note (vii))
– Term extension derivative embedded in the convertible bond 2	–	(811)	Level 3	Black-Scholes model with Trinomial Tree method Key inputs: Discount rate, Share price volatility	Discount rate of 12.52%; share price volatility of 58.94% (Note (viii))

#### Notes:

- (i) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 1.
- (ii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 2.
- (iii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the promissory note 3.
- (iv) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 3.





# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

## 23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Financial assets and liabilities measured at fair value (continued)

Notes: (continued)

- (v) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 4.
- (vi) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 1.
- (vii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 2.
- (viii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

The Directors consider that the carrying amounts of other financial assets and liabilities recorded at amortised cost in the unaudited condensed consolidated financial statements approximate to their fair values.

There were no transfers between level 1, level 2 and level 3 during the six months ended 30 June 2018 and 2017.

## 24. COMPARATIVES

Certain comparative figures have been reclassified to conform with current period's presentation.