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Mobile Internet (China) Holdings Limited

移動互聯(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1439)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

UNAUDITED INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Mobile Internet (China) Holdings Limited (the “Company”) announce that the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019 together with the unaudited comparative figures for the six months ended 30 June 2018 are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
	<i>Notes</i>	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Unaudited)
Revenue	4	234,931	493,522
Cost of sales		(175,764)	(319,959)
Gross profit		59,167	173,563
Other revenue	5	1,066	2,181
Other income	6	756	508
Selling and distribution expenses		(31,399)	(79,855)
Administrative expenses		(19,950)	(25,892)
Amortisation of intangible assets		(4,281)	(4,564)
Gain on early redemption of promissory notes		–	759
Profit from operating before fair value change		5,359	66,700
Change in fair value of derivative financial instruments		–	(8,382)
Profit from operations		5,359	58,318
Finance costs	8	(16,695)	(15,101)
(Loss)/profit before tax	7	(11,336)	43,217
Income tax expenses	9	(406)	(11,531)
(Loss)/profit for the period		(11,742)	31,686
Other comprehensive income/(loss) for the period, net of tax			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		406	(3,033)
Other comprehensive income/(loss) for the period, net of tax		406	(3,033)
Total comprehensive (loss)/income for the period, net of tax		(11,336)	28,653
(Loss)/profit attributable to owners of the Company		(11,742)	31,686
Total comprehensive (loss)/income attributable to owners of the Company		(11,336)	28,653
(Loss)/earnings per share attributable to owners of the Company			
– Basic (<i>RMB cents</i>)	11	(0.85)	2.35
– Diluted (<i>RMB cents</i>)	11	(0.85)	2.35

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

		30 June	31 December
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		197,548	208,779
Prepaid lease payments		2,105	2,135
Goodwill		229,248	229,248
Intangible assets		15,657	15,692
Long-term prepayment		6,435	2,710
		450,993	458,564
Current assets			
Inventories		41,225	42,253
Trade receivables	12	90,072	61,649
Prepayments, deposits and other receivables		83,541	69,191
Cash and bank balances		185,748	268,320
		400,586	441,413
Current liabilities			
Trade, bills, other payables and accruals	13	96,367	60,354
Borrowings	14	207,932	92,797
Promissory notes	15	78,927	258,434
Convertible bonds	16	–	8,153
Contract liabilities		673	1,310
Tax payables		87	–
		383,986	421,048
Net current assets		16,600	20,365
Total assets less current liabilities		467,593	478,929
Net assets		467,593	478,929
Capital and reserves attributable to owners of the Company			
Share capital	17	11,161	11,161
Reserves		456,432	467,768
Total equity		467,593	478,929

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 2018 as contained in the Company’s annual report 2018 (the “Annual Report 2018”), 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 30 August 2019.

2. CHANGE IN ACCOUNTING POLICIES

Overview

The accounting policies adopted in preparing the financial statements are consistent with those applied in the annual consolidated financial statements of the Company for the year ended 31 December 2018, 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 2019.

The adoption of HKFRS 16 does not have a significant impact on the Group. 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.

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 2019 (six months ended 30 June 2018: Nil).

Segment revenues and results

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

	Paper-based packaging products		Development, distribution and operation of mobile gaming products		Consolidated	
	6 months ended 30 June 2019 RMB'000 (Unaudited)	6 months ended 30 June 2018 RMB'000 (Unaudited)	6 months ended 30 June 2019 RMB'000 (Unaudited)	6 months ended 30 June 2018 RMB'000 (Unaudited)	6 months ended 30 June 2019 RMB'000 (Unaudited)	6 months ended 30 June 2018 RMB'000 (Unaudited)
Revenue	<u>187,799</u>	<u>305,903</u>	<u>47,132</u>	<u>187,619</u>	<u>234,931</u>	<u>493,522</u>
Segment results	<u>7,701</u>	<u>14,062</u>	<u>1,258</u>	<u>55,375</u>	<u>8,959</u>	<u>69,437</u>
Unallocated corporate expenses					<u>(9,223)</u>	<u>(12,830)</u>
Unallocated finance costs					<u>(11,072)</u>	<u>(13,390)</u>
(Loss)/profit before tax					<u>(11,336)</u>	<u>43,217</u>
Income tax expenses					<u>(406)</u>	<u>(11,531)</u>
(Loss)/profit for the period					<u>(11,742)</u>	<u>31,686</u>

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 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	451,426	499,187	398,579	399,675	850,005	898,862
Unallocated corporate assets					1,574	1,115
Total assets					<u>851,579</u>	<u>899,977</u>
Segment liabilities	71,305	86,973	9,793	11,969	81,098	98,942
Unallocated corporate liabilities					302,888	322,106
Total liabilities					<u>383,986</u>	<u>421,048</u>

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.

Other segment information

Six months ended 30 June 2019

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

Six months ended 30 June 2018

	Paper-based packaging products <i>RMB'000</i> (Unaudited)	Development, distribution and operation of mobile gaming products <i>RMB'000</i> (Unaudited)	Unallocated <i>RMB'000</i> (Unaudited)	Consolidated <i>RMB'000</i> (Unaudited)
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)

During the six months ended 30 June 2019 and 2018, all revenue is derived from customers in the PRC.

4. REVENUE

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

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

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue recognised at a point in time:		
Sales of paper-based packaging products	187,799	305,903
Revenue recognised over time:		
Development, distribution and operation of mobile gaming products	47,132	187,619
	<u>234,931</u>	<u>493,522</u>

5. OTHER REVENUE

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of residual materials	710	1,426
Bank interest income	356	755
	<u>1,066</u>	<u>2,181</u>

6. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government subsidies	421	507
Reversal of bad debt written-off	255	–
Sundry incomes	80	1
	<u>756</u>	<u>508</u>

7. (LOSS)/PROFIT BEFORE TAX

(Loss)/profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Staff costs:		
Employee benefit expense (including directors' remuneration)		
Wages and salaries	23,903	17,413
Retirement benefit schemes contributions	2,711	1,043
	<u>26,614</u>	<u>18,456</u>
Other items:		
Cost of inventories sold	159,728	249,419
Depreciation of property, plant and equipment	11,181	10,888
Amortisation of prepaid lease payments	30	30
Amortisation of intangible assets	4,281	4,564
Minimum lease payments under operating leases of rented premises	789	747
Research and development costs	758	414
	<u>758</u>	<u>414</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses on borrowings	7,012	1,711
Imputed interest on promissory notes	9,167	12,324
Imputed interest on convertible bonds	516	1,066
	<u>16,695</u>	<u>15,101</u>

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
The PRC Enterprise Income Tax		
– Current tax	406	9,299
– Under provision in prior period	–	2,232
	<u>406</u>	<u>11,531</u>
Total income tax recognised in profit or loss		

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

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% for the six months ended 30 June 2019 (six months ended 30 June 2018: 25%). Pursuant to the relevant laws and regulations in the PRC, HongSheng (Jiangxi) Color Printing Packaging Co., Ltd (“HongSheng”), which qualified as a High and New Technology Enterprise (“HNTE”) in August 2014, was entitled to a reduced enterprise income tax rate of 15% from 1 January 2014 to 31 December 2016. During the year ended 31 December 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 was qualified as a HNTE and entitled to a reduced enterprise income tax rate of 15% from 1 January 2018 to 31 December 2020.

10. DIVIDENDS

The Directors do not recommend payment of any dividends for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

11. (LOSS)/EARNINGS PER SHARE

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

Basic and diluted (loss)/earnings per share

	Six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to owners of the Company for the purpose of (loss)/earnings per share	<u>(11,742)</u>	<u>31,686</u>

Number of shares

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares	<u>1,377,497,662</u>	<u>1,347,167,253</u>

Basic (loss)/earnings per share for the periods ended 30 June 2019 and 2018 are calculated by dividing the (loss)/profit for the period attributable to owners of the Company by the weighted average number of shares in issue during the period.

For the periods ended 30 June 2019 and 2018, the computation of diluted (loss)/earnings per share does not assume the conversion of the Company's outstanding convertible bonds and the effect of exercise the share options since it would result in an anti-dilutive effect on (loss)/earnings per share.

12. 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:

	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
0 – 30 days	40,345	26,465
31 – 60 days	38,068	26,607
61 – 90 days	11,659	8,577
	<u>90,072</u>	<u>61,649</u>

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 2019, no trade receivables were past due but not impaired (31 December 2018: Nil).

13. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	30 June 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade payables	55,215	31,512
Accruals	40,230	27,920
Other payables	922	922
	<u>96,367</u>	<u>60,354</u>

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
0 – 30 days	26,285	15,785
31 – 60 days	<u>28,930</u>	<u>15,727</u>
	<u>55,215</u>	<u>31,512</u>

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.

14. BORROWINGS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Secured bank borrowings-repayable within one year	14,000	51,000
Secured other borrowings	140,581	–
Non-secured other borrowings-repayable within one year	<u>53,351</u>	<u>41,797</u>
	<u>207,932</u>	<u>92,797</u>

All the bank borrowings were denominated in RMB. As at 30 June 2019 and 31 December 2018, 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 borrowings are as follows:

	30 June 2019 (Unaudited)	31 December 2018 (Audited)
Fixed rate – bank borrowings	5.7%	5.7% – 7.7%
Fixed rate – other borrowings	<u>8.2% – 18.0%</u>	<u>18.0%</u>

15. 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 2019 and the year ended 31 December 2018.

Financial liability component – Promissory notes liabilities:

	30 June				31 December
	2019				2018
	RMB'000				RMB'000
	(Unaudited)				(Audited)
Current portion	<u>–</u>				<u>258,434</u>
	Promissory	Promissory	Promissory	Promissory	Total
	Note 1	Note 2	Note 3	Note 4	RMB'000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 31 December 2018 and 1 January 2019 (Audited)	35,119	40,602	105,357	77,356	258,434
Redemption of promissory notes	–	(40,219)	–	–	(40,219)
Imputed interest charged	1,393	1,381	3,360	3,033	9,167
Coupon interest payable	(1,393)	(1,160)	(3,360)	(1,544)	(7,457)
Transfer to borrowings upon expiry	(34,597)	–	(103,791)	–	(138,388)
Exchange realignment	(522)	(604)	(1,566)	82	(2,610)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>78,927</u>	<u>78,927</u>
At 30 June 2019 (Unaudited)	–	–	–	78,927	78,927

16. 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 2019.

Financial liabilities – Financial liability component:

	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019 (Audited)	8,153	8,153
Imputed interest charged	516	516
Coupon interest payable	(187)	(186)
Transfer to borrowings upon expiry of conversion rights	(8,361)	(8,361)
Exchange realignment	(121)	(121)
	<u> </u>	<u> </u>
At 30 June 2019 (Unaudited)	<u> </u>	<u> </u>

Reserves – Equity component:

	Convertible Bond 2 RMB'000	Total RMB'000
At 31 December 2018 and 1 January 2019 (Audited)	426	426
Transfer of lapsed conversion rights of matured convertible bond	(426)	(426)
	<u> </u>	<u> </u>
At 30 June 2019 (Unaudited)	<u> </u>	<u> </u>

17. SHARE CAPITAL

Share capital

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

	Number of shares '000	Share capital HK\$'000	RMB'000
<i>Issued and fully paid:</i>			
At 31 December 2018, 1 January 2019 and 30 June 2019, ordinary shares of HK\$0.01 each	<u>1,377,498</u>	<u>13,776</u>	<u>11,161</u>

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

The PRC government has, after the suspension in March 2018, resumed the approval process of game publication numbers in December 2018. During the period under review, the Group has officially launched a new mobile game namely, “Heroes of Chaos (亂世英雄傳)” in January 2019 and a H5 game namely, “Myths (天旗)” in February 2019. “Legend of the Journey to the West (大聖傳說)” has released a version update which include new gameplay, levels and characters, etc. in March 2019. The revenue from mobile gaming segment were approximately RMB47.1 million, representing approximately 20.1% of the total revenue of the Group.

As the Group has experienced the impact of the market downturn and policy uncertainty last year, it has taken proactive and drastic actions to address the challenging environment, the Group has resolutely optimized the number of staff across its mobile gaming business. Cost saving measures were also taken across the marketing activities and other cost items that resulted in further reduction of expenses and optimization of the cost structure. The Group has restructured the browser game business by scaling down the operation of it, so that the Company could save the corresponding and significant operating costs and also achieve better operational risk management. The actions taken have been effective and the Group’s operational results have stabilized during the period under review.

Packaging segment

During the period under review, with the consumer confidence being affected by the ongoing US-China trade friction, the Group inevitably felt the impact of a weakening domestic economy. This resulted in lower prices for our packaging products and lower demand from some customers. The lower demand, coupled with lower prices due to vicious pricing competition have caused our packaging segment to record a shrunk in both sales volume and profit. As a result, the Group’s revenue from packaging segment has declined by 61.4% with the gross profit margin fell 3.5% to 15% as compared to the last corresponding period.

FINANCIAL REVIEW

During the period under review, the revenue of the Group was approximately RMB234.9 million (six months ended 30 June 2018: approximately RMB493.5 million), representing a decrease of approximately RMB258.6 million or approximately 52.4% as compared to the last corresponding period. This decrease was primarily due to (i) several of the Group's key titles, such as "Legend of the Reign of the Assassins (劍雨傳說)", "Swordsman (七絕)" and "War of Heroes (天天打魔獸)", have entered into the mature stage of their lifecycle and generated less revenue than prior year, while the increase in revenue generated from new games could not fully offset the decrease in revenue generated from the Group's existing key titles; (ii) the decrease in sales volume of our packaging products resulted from poor demand caused by outbreak of the US-China trade war and intense competition in the packaging industry.

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			
	2019		2018	
	<i>RMB'000</i>	<i>% of Total</i>	<i>RMB'000</i>	<i>% of Total</i>
Flexo-printed cartons	<u>73,636</u>	<u>31.3</u>	<u>139,565</u>	<u>28.3</u>
Offset-printed cartons				
– Traditional paper-based cartons	<u>51,590</u>	<u>22.0</u>	<u>76,574</u>	<u>15.5</u>
– Stone-paper based cartons	<u>62,573</u>	<u>26.6</u>	<u>89,764</u>	<u>18.2</u>
Sub-total	<u>114,163</u>	<u>48.6</u>	<u>166,338</u>	<u>33.7</u>
Packaging segment	<u>187,799</u>	<u>79.9</u>	<u>305,903</u>	<u>62.0</u>
Mobile gaming segment	<u>47,132</u>	<u>20.1</u>	<u>187,619</u>	<u>38.0</u>
Total	<u>234,931</u>	<u>100.0</u>	<u>493,522</u>	<u>100.0</u>

Packaging segment

During the period under review, our revenue from sales of flexo-printed cartons was approximately RMB73.6 million (six months ended 30 June 2018: approximately RMB139.6 million), accounting for approximately 31.3% (six months ended 30 June 2018: approximately 28.3%) of our total revenue. Our revenue from sales of offset-printed cartons was approximately RMB114.2 million (six months ended 30 June 2018: approximately RMB166.3 million), accounting for approximately 48.6% (six months ended 30 June 2018: approximately 33.7%) of our total revenue.

Revenue by product categories of our customers (Packaging segment)

	Six months ended 30 June			
	2019		2018	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Food and beverages	51,308	27.3	101,202	33.1
Glass and ceramics articles	5,528	2.9	32,164	10.5
Metal hardware and chemical products	29,281	15.6	35,111	11.5
Bamboo articles	4,593	2.5	7,541	2.5
Department stores	33,017	17.6	48,362	15.8
Others	64,072	34.1	81,523	26.6
Packaging segment total	<u>187,799</u>	<u>100.0</u>	<u>305,903</u>	<u>100.0</u>

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 RMB51.3 million (six months ended 30 June 2018: approximately RMB101.2 million), representing approximately 27.3% (six months ended 30 June 2018: approximately 33.1%) of the revenue from packaging segment.

Mobile gaming segment

During the period under review, our revenue from mobile gaming segment was approximately RMB47.1 million (six months ended 30 June 2018: RMB187.6 million), accounting for approximately 20.1% of the total revenue (six months ended 30 June 2018: 38.0%).

Revenue by games (Mobile gaming segment)

	Six months ended 30 June			
	2019		2018	
	RMB'000	%	RMB'000	%
Legend of the Journey to the West (大聖傳說)	1,406	3.0	12,579	6.7
Heroes of the Imperial Empire (帝國英雄)	–	–	3,883	2.0
Legend of the Reign of the Assassins (劍雨傳說)	–	–	44,319	23.6
Swordsman (七絕)	11,123	23.6	55,877	28.8
War of Heroes (天天打魔獸)	12,202	25.9	41,267	22.0
Hammer of Odin (奧丁之錘)	12,722	27.0	28,069	15.0
Heroes of Chaos (亂世英雄傳)	5,380	11.4	–	–
Myths (天旗)	2,907	6.2	–	–
Others	1,392	2.9	1,625	0.9
Mobile gaming segment total	<u>47,132</u>	<u>100.0</u>	<u>187,619</u>	<u>100.0</u>

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			
	2019		2018	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	<u>8,257</u>	11.2	<u>21,379</u>	15.3
Offset-printed cartons				
– Traditional paper-based cartons	6,952	13.5	12,898	16.8
– Stone-paper based cartons	<u>12,863</u>	20.6	<u>22,207</u>	24.7
Sub-total	<u>19,815</u>	17.4	<u>35,105</u>	21.1
Packaging segment	28,072	15.0	56,484	18.5
Mobile gaming segment	<u>31,095</u>	66.0	<u>117,079</u>	62.4
Total	<u>59,167</u>	25.2	<u>173,563</u>	35.2

The overall gross profit of the Group decreased by RMB114.4 million or approximately 65.9% from approximately RMB173.6 million for the last corresponding period to approximately RMB59.2 million for the period under review. Our overall gross profit margin decreased from approximately 35.2% for the last corresponding period to approximately 25.2% for the period under review primarily due to the significant decrease in the revenue from mobile gaming segment, where the margin is much higher than the revenue from the packaging segment.

The gross profit from flexo-printed cartons for the period under review was approximately RMB8.3 million, representing a decrease of approximately 61.2% as compared to approximately RMB21.4 million for the last corresponding period. The gross profit margin for flexo-printed cartons decreased to approximately 11.2% for the period under review from approximately 15.3% for the last corresponding period mainly due to the drop in average selling price.

The gross profit from offset-printed cartons for the period under review was approximately RMB19.8 million, representing a decline of approximately 43.6% as compared to approximately RMB35.1 million for the last corresponding period. The gross profit margin for offset-printed cartons decreased to approximately 17.4% for the period under review from approximately 21.1% for the last corresponding period.

The gross profit from our mobile gaming segment for the period under review was approximately RMB31.1 million, representing a decline of approximately 73.4% as compared to approximately RMB117.1 million for the last corresponding period. The gross profit margin increased to approximately 66.0% for the period under review from approximately 62.4% for the last corresponding period. The increase was mainly due to cost control policy during the period under review.

OTHER REVENUE AND INCOME

During the period under review, other revenue and income of the Group was approximately RMB1.8 million, representing a decrease of approximately 33.3% or approximately RMB0.9 million as compared to approximately RMB2.7 million for the last corresponding period. The decrease was mainly attributable to the decrease in sales of residual materials and bank interest income.

SELLING AND DISTRIBUTION EXPENSES

During the period under review, selling and distribution expenses of the Group was approximately RMB31.4 million, representing a decrease by approximately 60.7% or approximately RMB48.5 million as compared to approximately RMB79.9 million for the last corresponding period. The decrease was mainly due to the reduction in advertising and promotion expenses incurred by publishing new games in light of our cost control policy adopted for the period under review. Consequently, our selling and distribution expenses as a percentage of our total turnover decreased to approximately 13.4% for the period under review as compared to approximately 16.2% for the last corresponding period.

ADMINISTRATIVE EXPENSES

During the period under review, administrative expenses of the Group was approximately RMB20.0 million, representing a decrease by approximately 22.8% or approximately RMB5.9 million as compared to approximately RMB25.9 million for the last corresponding period. The decrease was mainly because the Group has strictly controlled various expenditures to the proportion of turnover in order to control the expenditures growth during the period under review.

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.

FINANCE COSTS

During the period under review, finance costs of the Group was approximately RMB16.7 million, representing an increase by approximately 10.6% or approximately RMB1.6 million as compared to approximately RMB15.1 million for the last corresponding period. The increase was mainly due to the increase in average interest rates on borrowings.

INCOME TAX EXPENSES

During the period under review, income tax expenses of the Group was approximately RMB0.4 million, representing a decrease by approximately 96.5% or approximately RMB11.1 million as compared to approximately RMB11.5 million for the last corresponding period. The decrease was consistent with the decrease in taxable profit. Both of our packaging and mobile gaming segments were qualified as High and New Technology Enterprises and entitled to a preferential income tax rate of 15%.

LOSS FOR THE PERIOD

As a combined result of the factors discussed above, the Group's net loss for the period under review was approximately RMB11.7 million as compared to a net profit of approximately RMB31.7 million for the last corresponding period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operation with internal resources, borrowings, promissory notes and convertible bonds. As at 30 June 2019, the cash and cash equivalents were approximately RMB185.7 million (31 December 2018: approximately RMB268.3 million) mostly denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings which includes borrowings, promissory notes and convertible bonds amounted to approximately RMB286.9 million (31 December 2018: approximately RMB359.4 million). As at 30 June 2019, approximately 4.9% (31 December 2018: approximately 14.2%) of the total borrowings were denominated in Renminbi and approximately 95.1% (31 December 2018: approximately 85.8%) 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 borrowings, promissory notes and convertible bonds, divided by total equity. The gearing ratio of the Group as at 30 June 2019 and 31 December 2018 were approximately 61.4% and approximately 75.0% respectively.

On 20 May 2019, Promissory Note 1, Promissory Note 2 and Convertible Bond 2 with outstanding principal amount to HK\$40,000,000, HK\$120,000,000 and HK\$6,666,667, respectively were matured and the Company is currently in the process of negotiation with the noteholder for an extension of the maturity date.

INVENTORIES

As at 30 June 2019, the inventories carried a total worth of approximately RMB41.2 million which was less than the amount of approximately RMB42.3 million as at 31 December 2018. The inventory turnover increased by 12 days to 47 days compared to 35 days as at 31 December 2018.

TRADE RECEIVABLES

As at 30 June 2019, the trade receivables amounted to approximately RMB90.1 million (31 December 2018: approximately RMB61.6 million). The trade receivables turnover days increased by 5 days to 58 days compared to 53 days as at 31 December 2018.

TRADE PAYABLES

As at 30 June 2019, the trade payables amounted to approximately RMB55.2 million (31 December 2018: approximately RMB31.5 million). The trade payables turnover days decreased by 7 days to 45 days compared to 38 days as at 31 December 2018.

OUTLOOK

Mobile gaming segment

Looking forward, the Company has a number of games under development in its pipeline covering different genres and target users and plans to launch a number of new games in 2019 including "Heavenly Warrior (煉魂神域)", "My Goddess (萬仙萌)" and "Legend of the Grandmaster (九轉天尊)". In addition, the Company's publishing team will introduce appealing games by working with other game developers that have mastered different game genres.

We will continue to focus on developing high quality mobile games, HTML5 Games and browser games to meet the constantly changing demand of gamers despite the intense competition in the game industry, and on strengthening our game distribution capabilities.

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

Since the outbreak of the US-China trade war in 2018, the packaging paper business in PRC has relatively shrunk. Given such volatility and uncertainty in market condition, the Group will continue its effort in providing value-added services, including structural design and logistics management. We believe such value-added services can differentiate the Group from other packaging suppliers and enhance the Group's market position.

At the same time, the Group will also continue to control the raw material costs through prudent inventories and procurement management, and to employ stringent credit control and prudent financial management, in order to keep a solid financial foundation for future development amid the uncertain economic prospects.

The Group will continue to devote its resources carefully according to the market environment and the performance of its different business segments to secure overall profitability. The Group may look beyond the existing business and is evaluating the investment opportunities in trading of commodity.

EMPLOYEES

As at 30 June 2019, the Group had 676 full time employees in total (31 December 2018: 729). The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

EXCHANGE RISK EXPOSURE

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

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil) to the shareholders.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group's capital commitments were approximately RMB60.0 million (31 December 2018: approximately RMB60.0 million). The capital commitments were related to capital contribution payable to a subsidiary.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 30 June 2019, the Group pledged certain assets with a carry value of approximately RMB44.9 million (31 December 2018: approximately RMB78.3 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 2019.

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 2019.

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

As at 30 June 2019, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules:

Long positions in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua (<i>Note</i>)	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 2019, 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.

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

As at 30 June 2019, 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.

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 2019.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

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

The primary duties of the Audit Committee, amongst other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. 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 2019 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 2019 is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk under “Latest Listed Company Information” and the designated website of the Company at <http://www.hs-pack.com>. The interim report of the Company for the six months ended 30 June 2019 will be dispatched to the shareholders and be posted on the aforesaid websites in due course.

By Order of the Board
Mobile Internet (China) Holdings Limited
Chen Hong Cai
Chairman

Jiangxi Province, the PRC, 30 August 2019

As at the date of this announcement, the Executive Directors of the Company are Mr. Chen Hong Cai (Chairman), Mr. Sun Shao Hua and Ms. Zheng Li Fang; and the Independent Non-executive Directors of the Company are Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping.