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Huan Yue Interactive Holdings Limited

歡悅互娛控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 505)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Huan Yue Interactive Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

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

	<i>Note</i>	At 30 June 2017 <i>RMB'000</i> (unaudited)	At 31 December 2016 <i>RMB'000</i> (audited)
Non-current liabilities			
Interest-bearing borrowings	11	100,000	80,000
Contingent consideration payable		30,962	46,093
Deferred income		52,932	49,449
Deferred tax liabilities		<u>16,586</u>	<u>15,241</u>
		<u>200,480</u>	<u>190,783</u>
Net assets		<u>975,182</u>	<u>885,890</u>
Capital and reserves			
Share capital		75,458	73,687
Reserves		<u>870,862</u>	<u>784,444</u>
Total equity attributable to equity shareholders of the Company		946,320	858,131
Non-controlling interests		<u>28,862</u>	<u>27,759</u>
Total equity		<u>975,182</u>	<u>885,890</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

1. REPORTING ENTITY AND BACKGROUND INFORMATION

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

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

2. BASIS OF PREPARATION

The preliminary announcement of Company’s interim results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company’s interim financial report has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”) and has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

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

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

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

3. CHANGE IN ACCOUNTING POLICIES

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

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

4. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

(b) Segment reporting

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

- Copper products – this segment carries on the business of manufacturing and selling high precision copper plates and strips products, providing processing services of copper plates and strips products and trading of raw materials.
- Online games – this segment carries on the business of developing, publishing and operating online games and providing technical support services.

(i) Segment results

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

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

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

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

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

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

(iii) *Geographic information*

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

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

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

5. PROFIT BEFORE TAXATION

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

(a) Net finance costs

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

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

(b) Other items

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

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

6. INCOME TAX

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

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

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

7. EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

8. INVENTORIES

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

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

9. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

(a) Ageing analysis

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

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

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

(b) Trade and bill receivables that are not impaired

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

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

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

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

10. TRADE AND OTHER PAYABLES

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

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

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

11. INTEREST-BEARING BORROWINGS

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

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

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

	At 30 June 2017 <i>RMB'000</i> (unaudited)	At 31 December 2016 <i>RMB'000</i> (audited)
Within 1 year	----- <u>131,000</u> -----	----- <u>228,768</u> -----
Over 1 year but less than 2 years	40,000	—
Over 2 years but less than 5 years	<u>60,000</u>	<u>80,000</u>
	----- <u>100,000</u> -----	----- <u>80,000</u> -----
	<u>231,000</u>	<u>308,768</u>

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

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

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

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

12. SHARE AWARD SCHEME

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

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

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

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

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

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

13. DIVIDENDS

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

Online Game Business

Market review

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

Industry review

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

Business review

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

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

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

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

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

Outlook

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

Copper Plates and Strips Business

Market and industry review

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

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

Business review

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

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

Business development

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

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

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

Outlook

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

FINANCIAL REVIEW

Revenue and gross profit

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

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

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

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

Other income

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

Other expenses

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

Distribution expenses

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

Administrative expenses

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

Net finance costs

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

Income tax

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

Profit attributable to the shareholders of the Company

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

Liquidity financial resources and capital structure

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

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

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

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

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

Charge on assets

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

Capital expenditure

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

Capital commitments

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

Contingent liabilities

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

MARKET RISK

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

Price risk

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

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

Interest rate risk

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

Foreign exchange risk

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

EMPLOYEES

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

SHARE OPTION SCHEME

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

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

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

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

AUDIT COMMITTEE

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the period under review.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”). Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors were interested in any business apart from the Group's businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group throughout the period under review.

INTERIM DIVIDEND

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

PUBLICATION OF 2017 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the Company's website (www.huanyue.com.hk) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The Company's 2017 interim report will be made available on the websites of the Company and Hong Kong Exchanges and Clearing Limited and will be despatched to the Company's shareholders in due course.

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

Hong Kong, 25 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. HU Changyuan, Mr. HU Minglie, Mr. REN Hao, Mr. ZHU Wenjun and Mr. CHEN Jianhua, the non-executive director of the Company is Mr. DAI Jianchun and the independent non-executive directors of the Company are Mr. CHAI Chaoming, Dr. LOU Dong and Ms. LU Hong.