Sheen Tai Holdings Group Company Limited
順泰控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1335)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 35.9% to approximately HK$246.9 million for the six months ended 30 June 2017 as compared with the same period of previous year.

- Gross profit decreased by approximately 9.8% to approximately HK$58.9 million for the six months ended 30 June 2017 as compared with the same period of previous year.

- Gross profit margin decreased by approximately 12.1% to approximately 23.9% for the six months ended 30 June 2017 as compared with the same period of previous year.

- Profit attributable to equity shareholders of the Company decreased from approximately HK$0.1 million to loss attributable to equity shareholders of the Company approximately HK$17.5 million for the six months ended 30 June 2017 as compared with the same period of previous year.

- Average trade and bill receivables turnover days decreased from approximately 198.6 days for the year ended 31 December 2016 to approximately 150.8 days for the six months ended 30 June 2017.

- Average inventory turnover days increased from approximately 115.6 days for the year ended 31 December 2016 to approximately 125.4 days for packaging materials for the six months ended 30 June 2017.

- The Board approved the payment of an interim dividend of HK$0.01 per share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK$0.05 per share).

The board (the "Board") of directors (the "Directors") of Sheen Tai Holdings Group Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 — unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	***$'000***	*$'000*
Revenue	*3*	**246,851**	181,692
Cost of sales		**(187,938)**	(116,363)
Gross profit		**58,913**	65,329
Other (expenses)/income	*4*	**(16,632)**	766
Selling and distribution costs		**(10,262)**	(15,865)
Administrative expenses		**(42,004)**	(37,181)
Other operating expenses		**(17)**	(91)
(Loss)/profit from operations		**(10,002)**	12,958
Finance costs	*5(a)*	**(3,686)**	(5,913)
(Loss)/profit before taxation	*5*	**(13,688)**	7,045
Income tax	*6*	**(3,512)**	(6,982)
(Loss)/profit for the period		**(17,200)**	63
Attributable to:			
Equity shareholders of the Company		**(17,473)**	63
Non-controlling interests		**273**	—
(Loss)/profit for the period		**(17,200)**	63
(Loss)/earnings per share	*7*		
Basic (HK$)		**(0.00741)**	0.00003
Diluted (HK$)		**(0.00741)**	0.00003

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 — unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
(Loss)/profit for the period	**(17,200)**	63
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries	**24,885**	(14,753)
Other comprehensive income for the period	**24,885**	(14,753)
Total comprehensive income for the period	**7,685**	(14,690)
Attributable to:		
Equity shareholders of the Company	**6,498**	(14,690)
Non-controlling interests	**1,187**	—
Total comprehensive income for the period	**7,685**	(14,690)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 — unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2017** *$'000*	At 31 December 2016 *$'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment	*8*	**479,717**	468,135
— Interests in leasehold land held for own use under operating lease		**19,810**	19,460
Intangible assets		**174,688**	185,145
Goodwill	*9*	**52,475**	52,475
Deferred tax assets		**12,619**	13,054
Other non-current assets		**3,000**	2,166
		742,309	740,435
Current assets			
Financial assets at fair value through profit or loss		**48,715**	224,648
Inventories	*10*	**713,471**	682,205
Trade and other receivables	*11*	**292,417**	311,669
Tax recoverable		**2,936**	4,864
Restricted cash		**1**	1
Cash and cash equivalents	*12*	**292,311**	171,003
		1,349,851	1,394,390
Current liabilities			
Trade and other payables	*13*	**841,904**	888,575
Bank loans		**131,237**	144,040
Current taxation		**4,329**	9,230
		977,470	1,041,845
Net current assets		**372,381**	352,545
Total assets less current liabilities		**1,114,690**	1,092,980

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 — unaudited

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2017** **$'000**	At 31 December 2016 $'000
Non-current liabilities			
Bank loans and overdrafts		—	445
Convertible bond	*14*	**26,040**	202,176
Deferred tax liabilities		**55,293**	56,426
		81,333	259,047
NET ASSETS		**1,033,357**	833,933
CAPITAL AND RESERVES			
Share capital	*16(b)*	**6,116**	5,460
Reserves	*16(c)*	**1,025,679**	828,098
Total equity attributable to equity shareholders of the Company		**1,031,795**	833,558
Non-controlling interests		**1,562**	375
TOTAL EQUITY		**1,033,357**	833,933

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Basis of preparation

Sheen Tai Holdings Group Company Limited (the "Company") was incorporated in the Cayman Islands on 24 February 2012 and registered as an exempted company with limited liability under Companies law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. This interim financial report of the Company as at and for the six months ended 30 June 2017 comprises the Company and its subsidiaries (collectively referred to as the "Group"). The Group is principally engaged in manufacturing and sales of BOPP films, sales of sub-processing cigarette films, properties development and related services, generation of photovoltaic power and cloud-related business. The Company's shares were listed on Stock Exchange of Hong Kong Limited on 13 July 2012.

This interim financial report 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, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was unaudited and authorised for issue on 31 August 2017.

The interim financial report 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 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, 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.

The interim financial report contains 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 Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative does not constitute the Company's statutory financial statements and the consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's registered office.

2 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs 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 this interim financial report.

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

3 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are manufacturing and sales of BOPP films, sales of sub-processing cigarette films, properties development and related services, generation of photovoltaic power and cloud-related business in the People's Republic of China (the "PRC").

Revenue represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes and rendering of services. The amount of each significant category of revenue recognised during the six months ended 30 June 2017 and 2016 is as follows:

	Six months ended 30 June			
	2017		2016	
	$'000	*%*	*$'000*	*%*
Manufacturing and sales of BOPP films				
— Cigarette films	**88,434**	**36%**	61,352	34%
— Non-cigarette-related films	**44,240**	**18%**	52,148	28%
Sub-total	**132,674**	**54%**	113,500	62%
Sales of sub-processing cigarette films	**48,568**	**20%**	55,521	31%
Properties development and related services	**37,927**	**15%**	—	—
Sales of electricity	**24,173**	**10%**	12,671	7%
Operation of cloud platforms	**3,509**	**1%**	—	—
Total	**246,851**	**100%**	181,692	100%

The Group's operations are not subject to significant seasonality fluctuations.

For the six months ended 30 June 2017 there are 2 customers (six months ended 30 June 2016: 2) with whom transactions have exceeded 10% of the Group's revenues. Revenues from manufacturing and sales of cigarette films to these customers, including sales to entities which are known to the Group to be under common control with these customers (i.e. the sales to different customers are viewed as a single customer if the relevant sales were made to various customers under common control), amounted to approximately HK$118,804,000 and HK$102,156,000 for the six months ended 30 June 2017 and 2016 respectively.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. 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 identified five reportable segments. No operating segments have been aggregated to form the following reportable segments.

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 period is set out below.

	Six months ended 30 June											
	Manufacturing and sales of BOPP films		Sales of sub-processing cigarette films		Properties development and related services		Generation of photovoltaic power		Cloud-related business		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**132,674**	113,500	**48,568**	55,521	**37,927**	—	**24,173**	12,671	**3,509**	—	**246,851**	181,692
Reportable segment revenue	**132,674**	113,500	**48,568**	55,521	**37,927**	—	**24,173**	12,671	**3,509**	—	**246,851**	181,692
Reportable segment gross profit	**31,907**	34,232	**18,308**	22,770	**3,448**	—	**16,246**	8,327	**(10,996)**	—	**58,913**	65,329
Reportable segment profit/(loss) before taxation	**12,054**	15,875	**9,727**	5,624	**211**	(11,041)	**15,544**	5,770	**(26,321)**	447	**11,215**	16,675
Interest income from bank deposits	**35**	138	**38**	888	**259**	191	**10**	5	**19**	—	**361**	1,222
Interest expense	**2,189**	578	**1,250**	4,291	**—**	1,044	**—**	—	**—**	—	**3,439**	5,913
Depreciation and amortisation for the period	**7,425**	7,439	**459**	4,473	**256**	331	**6,421**	3,610	**13,107**	—	**27,668**	15,853
As at 30 June/31 December												
Reportable segment assets	**391,954**	359,918	**123,730**	147,991	**875,380**	845,336	**334,721**	309,345	**298,992**	323,341	**2,024,777**	1,985,931
Reportable segment liabilities	**115,350**	118,777	**31,937**	80,526	**789,144**	733,784	**29,555**	28,499	**75,329**	299,699	**1,041,315**	1,261,285

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Reportable segment profit before taxation	**11,215**	16,675
Unallocated items	**(24,903)**	(9,630)
Consolidated (loss)/profit before taxation	**(13,688)**	7,045

4 Other (expenses)/income

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Interest income	**381**	1,222
Dividend income from equity securities	**396**	669
Sales of scrap materials	**5,890**	3,732
Net foreign exchange gain/(loss)	**361**	(791)
Net realised and unrealised loss on equity securities	**(12,302)**	(2,159)
Loss on revaluation of convertible bond *(Note 14)*	**(12,792)**	(3,100)
Others	**1,434**	1,193
	(16,632)	766

5 (Loss)/Profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
(a) Finance costs		
Interest on bank borrowings	**2,451**	2,428
Interest on other borrowings	**1,235**	4,318
Interest on convertible bond *(Note 14)*	**—**	1,312
Less: Interest expense capitalised into properties under development*	**—**	(2,145)
	3,686	5,913

* The borrowing cost has been capitalised at a rate of 5.600%-8.515% per annum.

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
(b) Staff costs		
Contributions to defined contributions retirement plans	**3,263**	1,528
Equity-settled share-based payment expense	**2,811**	3,316
Salaries, wages and other benefits	**23,539**	17,924
	29,613	22,768
(c) Other items		
Reversal of impairment losses		
— Trade and other receivables	**(449)**	(3,722)
Amortisation of intangible assets	**10,852**	80
Cost of inventories	**165,506**	112,019
Depreciation and amortisation of fixed assets	**20,623**	15,773
Net foreign exchange (gain)/loss	**(361)**	791
Operating lease charges	**5,883**	6,409
Net loss on disposal of fixed assets	**1**	5
Increase/(decrease) of inventory provision	**495**	(249)

6 Income tax

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Current tax — Hong Kong Profits Tax		
Provision for the period	**85**	242
Current tax — PRC income tax		
Provision for the period	**3,053**	6,318
Under-provision in respect of prior years	**721**	374
	3,774	6,692
Deferred tax		
Origination and reversal of temporary differences	**(347)**	48
	3,512	6,982

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in these jurisdictions.

(ii) The provision for Hong Kong profits tax for the six months ended 30 June 2017 and 2016 is calculated at 16.5%. The payments of dividends by the Group companies incorporated in Hong Kong are not subject to withholding tax.

(iii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which became effective on 1 January 2008 and the PRC's statutory Corporate Income Tax rate is 25%.

Pursuant to the rules and regulations applicable to advanced technology enterprises established in the PRC, Jiangsu Sheen Colour Science Technology Co., Ltd. and Qingdao Ener Packaging Technology Co., Ltd. are subject to PRC corporate income tax at a preferential tax rate of 15% for the six months ended 30 June 2017.

Entities engaged in qualified power projects, are eligible for a tax exemption for the first year to the third year, and a 50% reduction in corporate income tax for the fourth year to the sixth year starting from the year in which the entities first generate operating income (the "3+3 tax holiday"). Xuzhou Sheentai New Energy Power Company Limited (an indirect wholly-owned subsidiary of the Group) obtained the "Notification of Corporate Income Tax ("CIT") 3+3 tax holiday" in 2016 and was entitled to the 3+3 tax holiday retrospectively from 2015 to 2020.

(iv) According to the New Tax Law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Under the tax arrangement between the Mainland of China and Hong Kong Special Administrative Region and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds a 25% equity interest or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%. The withholding tax rate applicable to the Group is 5%.

(v) According to the New Tax Law and its implementation rules, where the research and development expenses incurred by an enterprise in its research and development activities do not form intangible assets and are included in the current period's profit or loss, 50% of such research and development expenses shall be deducted from the taxable income amount of the year; where intangible assets are formed, pre-tax amortisation shall be made based on 150% of the costs of the intangible assets.

7 (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2017 is based on the consolidated loss attributable to equity shareholders of the Company of HK$17,473,000 (six months ended 30 June 2016 profit: HK$63,000) and weighted average of 2,358,537,000 shares in issue during the six months ended 30 June 2017 (six months ended 30 June 2016: 2,007,690,000 shares).

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the consolidated loss attributable to ordinary equity shareholders of the Company of HK$17,473,000 (six months ended 30 June 2016 profit: HK$63,000) divided by the weighted average number of ordinary shares of 2,358,537,000 shares (six months ended 30 June 2016: 2,024,536,000 shares) after adjusting for the effects of deemed issue of shares under the Company's Pre-IPO Share Option Scheme (note 15) and the effect of conversion of convertible bond (note 14) and the effect of Share Subdivision.

8 Fixed assets

During the six months ended 30 June 2017, the Group's additions to fixed assets amounted to HK$18,374,000 (six months ended 30 June 2016: HK$171,702,000). Items of equipment with a net book value of HK$1,000 were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: HK$5,000), resulting in a loss on disposal of HK$1,000 (six months ended 30 June 2016: HK$5,000).

9 Goodwill

	Total
	$'000
Cost and carrying amount:	
At 1 January 2016	—
Additions through business combinations	52,475
At 31 December 2016 and 30 June 2017	52,475

On 30 June 2016, the Company had acquired Treasure Cloud Limited and its subsidiaries ("Treasure Cloud Group") which engages in the cloud-related business by issuing four tranches of convertible bonds which total principal amounts of HK$236,160,000. The goodwill arose from the acquisition of Treasure Cloud Limited amounting to HK$49,645,000, which represented the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in business combination.

On 31 December 2016, the Company had acquired Yancheng Renhe Network Sci. & Tech. Limited ("YCRH") which engages in the cloud-related business at consideration of RMB1,550,000. The goodwill mainly arose from the acquisition of YCRH amount to HK$2,830,000, which represented the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in business combination.

Impairment tests for cash-generating unit (“CGU”) containing goodwill

Goodwill is allocated to the Group’s cash-generating units (CGU) identified according to company of operation and timing as follows:

	2017	2016
	$’000	*$’000*
Treasure Cloud Group *(Note)*	**49,645**	49,645
YCRH	**2,830**	2,830
	52,475	52,475

Note: For the purpose of goodwill impairment testing in respect of acquisition of Treasure Cloud Group, goodwill arising from the business combinations was allocated to the CGU of Treasure Cloud Group, which is the Treasure Cloud Group’s cloud-related business.

The recoverable amount of the CGU is determined based on value in use calculation, which uses cash flow projections based on financial budgets approved by management. Key assumptions used for the value in use calculation of 2016 are average growth rate of 3%, and pre-tax discount rate of 20%.

Management are not aware of any significant changes in the assumptions in current period.

10 Inventories

Inventories in the consolidated statement of financial position comprise:

	At 30 June 2017 *$'000*	31 December At 2016 *$'000*
Packaging materials manufacturing and trading:		
— Raw materials	**40,217**	52,269
— Work in progress	**16,116**	7,698
— Finished goods	**32,576**	32,746
	88,909	92,713
Property development:		
— Property under development for sales	**624,562**	589,492
	713,471	682,205

During six months ended 30 June 2017, HK$495,000 (31 December 2016: recognition of write-down of inventories HK$315,000) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period.

11 Trade and other receivables

	At 30 June 2017 $'000	At 31 December 2016 $'000
Trade debtors and bills receivable	**197,771**	218,848
Less: Allowance from doubtful debts *(Note 11(b))*	**(2,380)**	(2,829)
	195,391	216,019
Deposits, prepayments and other receivables		
— Third parties	**97,026**	95,650
	292,417	311,669

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis:

As at 30 June 2017 and 31 December 2016, the ageing analysis of trade and bills receivable (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		At 31 December 2016	
	Trade receivable $'000	**Bills receivable $'000**	Trade receivable $'000	Bills receivable $'000
Less than 30 days	**76,990**	**4,214**	126,112	1,599
31 — 90 days	**52,629**	**18,006**	56,397	8,145
91 — 180 days	**11,785**	**5,538**	11,235	1,686
181 — 365 days	**25,999**	**230**	9,671	45
Over 365 days	**—**	**—**	1,129	—
	167,403	**27,988**	204,544	11,475

Trade and bills receivable are due within 30 to 180 days from the invoice date.

(b) Impaired of trade debtors and bills receivable:

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is directly written off against trade debtors and bills receivable.

As of 30 June 2017, an impairment loss of HK$2,380,000 (31 December 2016: HK$2,829,000) was recognised and provided for as a result from the assessment of the Group's trade receivables due from third parties of HK$2,380,000 (31 December 2016: HK$2,829,000) that individually determined to be impaired. The individually impaired trade receivables mainly relate to customers who are in financial difficulties and the likelihood of recoverability is expected to be in doubt. The Group does not hold any collateral over these balances.

Trade receivables due from third parties that are past due but not impaired relate to creditworthy customers who have maintained a close working relationship with the Group and have consistent payment records.

12 Cash and cash equivalents

	At 30 June 2017 *$'000*	At 31 December 2016 *$'000*
Cash at bank and on hand	**292,311**	171,003
Cash and cash equivalents in the consolidated statement of financial position	**292,311**	171,003
Cash and cash equivalents in the consolidated cash flow statement	**292,311**	171,003

13 Trade and other payables

	At 30 June 2017 $'000	At 31 December 2016 $'000
Trade and bills payable	**34,082**	92,544
Advance received	**736,957**	686,376
Other payables and accruals		
— Related parties	**24,217**	12,830
— Others	**46,584**	95,260
Amount due to the controlling shareholder and director		
— Mr Guo Yumin	**64**	1,565
	841,904	888,575

Included in trade and other payables are trade creditors with the following ageing analysis as at 30 June 2017 and 31 December 2016:

	At 30 June 2017		At 31 December 2016	
	Trade payable *$'000*	**Bills payable** *$'000*	Trade payable *$'000*	Bills payable *$'000*
Due within 1 month or on demand	**24,311**	**1,094**	74,511	1,060
Due after 1 month but within 3 months	**3,649**	**—**	13,785	—
Due after 3 months but within 6 months	**1,122**	**—**	1,512	—
Due more than 6 months	**3,906**	**—**	1,676	—
	32,988	**1,094**	91,484	1,060

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

14 Convertible bond

(a) 2014 Convertible Bond

On 30 June 2014, the Company issued convertible bond (the "2014 Convertible Bond") in the principal amount of HK$165,000,000 to the controlling shareholder and director, Mr Guo Yumin. The maturity date of the 2014 Convertible Bond is on the third anniversary of the date of issuance (i.e. 30 June 2017). The 2014 Convertible Bond bears interest at 3% per annum. No security or guarantee is granted in respect of the 2014 Convertible Bond. The 2014 Convertible Bond can be converted into 398,069,960 shares at the initial conversion price HK$0.4145 after the effect of the Share Subdivision (subject to adjustment pursuant to the terms of the convertible bond).

The Company may at any time before the maturity date of the 2014 Convertible Bond, by serving at least seven days prior written notice on the holder of the 2014 Convertible Bond with the total amount proposed to be redeemed from such holder specified therein, redeem the 2014 Convertible Bond (in whole or in part) at 100% to the principal amount (together with the accrued interests) of the part of the 2014 Convertible Bond to be redeemed. Any amount of the 2014 Convertible Bond which is redeemed by the Company will forthwith be cancelled.

At 31 December 2016 and 30 June 2017, there is no outstanding principal amount of this convertible bond issued on 30 June 2014.

(b) 2016 Convertible Bond

On 17 March 2016, the Company entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Bloom Shine Investments Limited ("Bloom Shine") and announced a plan to issue four tranches of convertible bonds (the "2016 Convertible Bond") with total principal amounts of HK$236,160,000 to Bloom Shine. The maturity date of the 2016 Convertible Bond is on the second anniversary of the date of issuance. The 2016 Convertible Bond will not bear any interest. The 2016 Convertible Bond can be converted into 328,000,000 shares at the initial conversion price HK$0.72 (subject to adjustment pursuant to the terms of the convertible bond).

Bondholder can assign or transfer in whole or in part the 2016 Convertible Bond (multiples of HK$576,000 of the fair value of the 2016 Convertible Bond), provided that the 2016 Convertible Bond cannot be assigned or transferred to connected persons (as defined under the Listing Rules) of the Company except in compliance with the Listing Rules and the Takeovers Code.

If the bondholder does not exercise his or her conversion rights, the Company shall, in any time after the issue of the 2016 Convertible Bond and before the first anniversary of the issue of the 2016 Convertible Bond, have the right to redeem any unexercised 2016 Convertible Bond with an amount equivalent to 160% of the unexercised principal amount on a specified date of redemption by giving a 5-days prior notice to the bondholder (such notice being irrevocable and cannot be opposed by the bondholder).

If the bondholder does not exercise his or her conversion rights, the Company shall, in any time after the first anniversary of the issue of the 2016 Convertible Bond and before the second anniversary of the issue of the 2016 Convertible Bond, have the right to redeem any unexercised 2016 Convertible Bond with an amount equivalent to 140% of the unexercised principal amount on a specified date of redemption by giving a 5-days prior notice to the bondholder (such notice being irrevocable and cannot be opposed by the bondholder).

Any amount of the 2016 Convertible Bond which is redeemed by the Company will forthwith be cancelled.

On 30 June 2016, the Company had issued the first tranche 2016 Convertible Bond in the principal amount of HK$141,696,000 to Bloom Shine. The maturity date of the 2016 Convertible Bond is on the second anniversary of the date of issuance (i.e. 30 June 2018). The 2016 Convertible Bond can be converted into 196,800,000 shares at the initial conversion price HK$0.72 (subject to adjustment pursuant to the terms of the convertible bond). The first tranche of the 2016 Convertible Bond may be converted into conversion shares commencing from the sixth months after the date of issuance and ending on the maturity date of the first tranche of the 2016 Convertible Bond.

If the operation revenue of cloud platforms before tax and surcharges is not less than RMB30,000,000 for the year ending 31 December 2016, the Company shall issue the second tranche of 2016 Convertible Bond with principal amounts of HK$47,232,000 to Bloom Shine on or before 31 March 2017 or other date as agreed between two parties.

If the operation revenue of cloud platforms before tax and surcharges is not less than RMB37,500,000 for the year ending 31 December 2017, the Company shall issue the third tranche of 2016 Convertible Bond with principal amounts of HK$23,616,000 to Bloom Shine on or before 31 March 2018 or other date as agreed between two parties.

If the operation revenue of cloud platforms before tax and surcharges is not less than RMB48,750,000 for the year ending 31 December 2018, the Company shall issue the fourth tranche of 2016 Convertible Bond with principal amounts of HK$23,616,000 to Bloom Shine on or before 31 March 2019 or other date as agreed between two parties.

If the actual operation revenue of cloud platforms before tax and surcharges during a guaranteed period is less than the guaranteed revenue for that guaranteed period (the "Difference"), Bloom Shine may pay to the Company in cash an amount equivalent to the Difference ("Cash Compensation") on or before 31 March 2017, 31 March 2018, and 31 March 2019 or such other dates as agreed in written. In such case, Bloom Shine shall be entitled to obtain the relevant tranche of the 2016 Convertible Bond since the guaranteed revenue shall be considered to have been satisfied.

If no Cash Compensation is provided by Bloom Shine, the second tranche 2016 Convertible Bond, the third tranche 2016 Convertible Bond and the fourth tranche 2016 Convertible Bond payable to Bloom Shine or its nominee shall be reduced in proportion to the amount of the Difference.

The Difference for that guaranteed period shall be rolled over to the next guaranteed period and the guaranteed revenue for the next guaranteed period shall be increased by the amount of the Difference. Accordingly, the amount of the relevant tranche of 2016 Convertible Bond payable reduced pursuant to the clause above shall be rolled over and added to the amount of the tranche of 2016 Convertible Bond payable in the next guaranteed period.

If the actual operation revenue of cloud platforms before tax and surcharges during a guaranteed period is more than the guaranteed revenue for that guaranteed period, there will not be any upward adjustment of the principal value of the 2016 Convertible Bond.

On 22 February 2017, the first tranche 2016 Convertible Bond has been fully converted into 196,800,000 ordinary shares at the initial conversion price HK$0.72.

On 31 March 2017, the second tranche 2016 Convertible Bond in the principal amount of HK$47,232,000 had been issued to Bloom Shine pursuant to the Sale and Purchase Agreement. On the same day, the second tranche 2016 Convertible Bond has been fully converted into 65,600,000 ordinary shares at the initial conversion price HK$0.72.

	First tranche and second tranche of 2016 Convertible Bond	**Third tranche and fourth tranche of 2016 Convertible Bond**	**Total**
	$'000	*$'000*	*$'000*
Balance at 31 December 2016	169,563	32,613	202,176
Changes in fair value of Convertible Bond *(Note 4)*	19,365	(6,573)	12,792
Convert to new shares	(188,928)	—	(188,928)
Balance at 30 June 2017	—	26,040	26,040

15 Equity-settled share-based transactions

Pursuant to an ordinary resolution of the sole shareholder passed on 22 June 2012, a Pre-IPO share option scheme (the "share option scheme") was approved and adopted to provide grantees with the opportunity to acquire equity interest in the Company.

On 29 January 2015, the Company announced 14,600,000 share options (before Share Subdivision) to subscribe for up to a total of 14,600,000 ordinary shares of (before Share Subdivision) HK$0.01 each of the Company were granted to certain grantees under the share option scheme adopted by the Company on 22 June 2012 set above.

The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time), directors and advisers of the Group and to promote the success of the business of the Group.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

			Options granted to		
Date granted	**Vesting date**	**Expiry date**	**Directors**	**Employees**	**Total**
22 June 2012	14 July 2013	13 July 2018	275,000	725,000	1,000,000
22 June 2012	14 July 2014	13 July 2018	412,500	1,087,500	1,500,000
22 June 2012	14 July 2015	13 July 2018	550,000	1,450,000	2,000,000
22 June 2012	14 July 2016	13 July 2018	687,500	1,812,500	2,500,000
22 June 2012	14 July 2017	13 July 2018	825,000	2,175,000	3,000,000
29 January 2015	29 January 2016	28 January 2025	500,000	2,420,000	2,920,000
29 January 2015	29 January 2017	28 January 2025	500,000	2,420,000	2,920,000
29 January 2015	29 January 2018	28 January 2025	500,000	2,420,000	2,920,000
29 January 2015	29 January 2019	28 January 2025	500,000	2,420,000	2,920,000
29 January 2015	29 January 2020	28 January 2025	500,000	2,420,000	2,920,000
			5,250,000	19,350,000	24,600,000

(b) The number and weighted average exercise prices of share options are as follows:

	Share Option granted on 22 June 2012		**Share Option granted on 29 January 2015**		**Total**
	Weighted average exercise price	**No. of options *('000)***	**Weighted average exercise price**	**No. of options *('000)***	**No. of options *('000)***
Outstanding at 1 January 2017	**HK$0.1507**	**16,910**	**HK$0.8250**	**58,400**	**75,310**
Outstanding at 30 June 2017	**HK$0.1507**	**16,910**	**HK$0.8250**	**58,400**	**75,310**
Exercisable at 30 June 2017	**HK$0.1507**	**4,910**	**HK$0.8250**	**23,360**	**28,270**

	Share Option granted on 22 June 2012		Share Option granted on 29 January 2015		Total
	Weighted average exercise price	No. of options *('000)*	Weighted average exercise price	No. of options *('000)*	No. of options *('000)*
Outstanding at 1 January 2016	HK$0.1507	24,310	HK$0.8250	58,400	82,710
Exercised after the share subdivision	HK$0.1507	(7,400)	—	—	(7,400)
Outstanding at 31 December 2016	HK$0.1507	16,910	HK$0.8250	58,400	75,310
Exercisable at 31 December 2016	HK$0.1507	4,910	HK$0.8250	11,680	16,590

The Pre-IPO share options granted on 22 June 2012 outstanding at 30 June 2017 had an exercise price of HK$0.1507 (31 December 2016: HK$0.1507) and a weighted average remaining contractual life of 0.03 years (31 December 2016: 0.21 years).

The share options granted on 29 January 2015 outstanding at 30 June 2017 had an exercise price of HK$0.8250 (31 December 2016: HK$0.8250) and a weighted average remaining contractual life of 0.58 years (31 December 2016: 1.08 years).

16 Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Interim dividend declared and paid after the interim period of HK$0.01 per ordinary share (2016: HK$0.05)	**24,464**	109,198

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Nil dividend in respect of the previous financial year, approved and paid during the following interim period (six months ended 30 June 2016: HK$0.02 per ordinary share)	**—**	40,154

(b) Share capital

Authorised and issued share capital

		2017		2016	
	Note	**Number of shares (’000)**	**Amount $’000**	Number of shares (’000)	Amount $’000
Authorised:					
Ordinary shares of HK$0.0025 each	*(i)*	**8,000,000**	**20,000**	8,000,000	20,000
Ordinary shares, issued and fully paid:					
At 1 January		**2,183,968**	**5,460**	2,007,690	5,019
Shares issued under share option scheme after the Share Subdivision	*(ii)*	**—**	**—**	7,400	19
Conversion of convertible bond	*(iii)&(iv)*	**262,400**	**656**	168,878	422
At 30 June/31 December		**2,446,368**	**6,116**	2,183,968	5,460

(i) The par value of the ordinary shares of the Company was initially at HK$0.01 per share. With effect from 24 September 2015, each of the existing issued and unissued shares of the Company was subdivided into 4 subdivided shares of HK$0.0025 each (each defined as “Subdivided Share”), after an ordinary resolution was passed at the annual general meeting of the Company held on 24 September 2015 and with an approval obtained from the Stock Exchange of Hong Kong Limited (the “Share Subdivision”). Upon the Share Subdivision became effective, the authorised capital of the Company became HK$20,000,000, divided into 8,000,000,000 Subdivided Shares of HK$0.0025 each. The other rights and terms of the shares remain unchanged after Share Subdivision.

(ii) Nil options were exercised during the six months ended 30 June 2017 (31 December 2016: 7,400,000).

(iii) On 22 February 2017, Bloom Shine exercised the conversion rights of the first tranche 2016 Convertible Bond at the initial conversion price HK$0.72. As a result, the Company issued 196,800,000 ordinary shares accordingly. Proceeds of HK$492,000 representing the par value of these ordinary shares, were credited to the Company's share capital. On 31 March 2017, Bloom Shine exercised the conversion rights of the second tranche 2016 Convertible Bond at the initial conversion price HK$0.72. As a result, the Company issued 65,600,000 ordinary shares accordingly. Proceeds of HK$164,000 representing the par value of these ordinary shares, were credited to the Company's share capital.

(iv) On 19 July 2016, Mr Guo Yumin exercised his conversion rights of 2014 Convertible Bond at the initial conversion price HK$0.4145. As a result, the Company issued 168,878,166 ordinary shares accordingly. Proceeds of HK$422,000 representing the par value of these ordinary shares, were credited to the Company's share capital.

(c) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Statutory reserve

General reserve fund

Pursuant to the applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting losses of previous year/period) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory reserve must be made before distribution of dividends to equity shareholders. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase the registered capital of the subsidiary.

(iii) Share-based compensation reserve

Share-based compensation reserve presents the fair value of the share options granted to employees of the Group in accordance with the accounting policy adopted by share-based payments.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial information of operations with functional currency other than Hong Kong dollars.

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial asset held at the end of the reporting period and is dealt with in accordance with the accounting policies.

17 Commitments

(a) Capital commitments outstanding not provided for in the interim financial report:

	At 30 June 2017	At 31 December 2016
	$'000	*$'000*
Contracted for	**3,253**	—

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2017	At 31 December 2016
	$'000	*$'000*
Within 1 year	**6,352**	10,507

The Group is the lessee in respect of certain properties and plant held under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

18 Material related party transactions

During the six months ended 30 June 2017 and 2016, transactions with the following parties are considered to be related party transactions:

Name of related party	**Relationship with the Group**
Mr Guo Yumin	Director and the controlling shareholder of the Group
Xuzhou Ruilong Real Estate Development Co., Ltd. *(Note)*	Owned by Mr Guo Yumin, the director and the controlling shareholder

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

(a) Remuneration of key management personnel

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Short-term employee benefits	**4,223**	3,119
Post-employment benefits	**90**	102
Equity-settled share-based payment expenses	**1,125**	1,236
	5,438	4,457

Total remuneration is disclosed in "staff costs" (note 5(b)).

(b) Other related party transactions

	Interest expenses $'000	Rental expenses $'000	Proceeds from borrowing $'000	Repayment of borrowing $'000	Repayment of interest $'000	Interest on convertible bond $'000
	Six months ended 30 June 2017					
Xuzhou Ruilong Real Estate Development Co., Ltd.	**194**	**—**	**19,358**	**8,165**	**—**	**—**
Mr Guo Yumin	**—**	**—**	**—**	**1,501**	**—**	**—**
	194	**—**	**19,358**	**9,666**	**—**	**—**

	Interest expenses $'000	Rental expenses $'000	Proceeds from borrowing $'000	Repayment of borrowing $'000	Repayment of interest $'000	Interest on convertible bond $'000
	Six months ended 30 June 2016					
Xuzhou Ruilong Real Estate Development Co., Ltd.	2,697	274	37,907	109,032	7,491	—
Mr Guo Yumin	—	—	—	—	—	1,312
	2,697	274	37,907	109,032	7,491	1,312

(c) Balances with related parties

As at 30 June 2017 and 31 December 2016, the Group had the following balances with related parties:

	At 30 June 2017 ***$'000***	At 31 December 2016 *$'000*
Amount due to the controlling shareholder and director *(Note)*		
— Mr Guo Yumin	**64**	1,565
Amount due to related companies		
— Xuzhou Ruilong Real Estate Development Co., Ltd.	**24,217**	12,830
	24,281	14,395

Note: The balance with the controlling shareholder and director is unsecured, interest- free and repayable on demand.

19 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 June 2017	**Fair value measurements as at 30 June categorised into**			Fair value at 31 December 2016	Fair value measurements as at 31 December categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	$'000	***$'000***	***$'000***	***$'000***	*$'000*	*$'000*	*$'000*	*$'000*
Recurring fair value measurements								
Assets:								
Financial assets at fair value through profit or loss								
— Listed	**41,802**	**41,802**	**—**	**—**	55,839	55,839	—	—
— Unlisted	**6,913**	**—**	**6,913** *(Note 1)*	**—**	168,809	—	168,809 *(Note 1)*	—
Liabilities:								
Financial liabilities at fair value through profit or loss	**26,040**	**—**	**26,040** *(Note 2)*	**—**	202,176	—	202,176 *(Note 2)*	—

During the six months ended 30 June 2017, there were no transfers between Level 1, Level 2 and Level 3 (2016:nil).

Valuation techniques and inputs used in Level 2 fair value measurements

Note 1: The fair value of financial assets at fair value through profit or loss is based on the market comparison method. The valuation refers to the expected return rates announced by the banks.

Note 2: The fair value of the convertible bonds are determined using the Binomial Model and Monte Carlo Simulation Model.

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 30 June 2017.

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2017

A number of amendments and new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: *Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

— The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

— For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

(a) Timing of revenue recognition

Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good in the contract. HKFRS 15 identifies 3 situations in which control of the promised good is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 some of the Group's contract manufacturing and residential property development activities that are currently recognised at a point in time may meet the HKFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract, which may vary depending on the jurisdiction in which the contract would be enforced. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

Advance payments are not common in the Group's arrangements with its customers, with the exception of when residential properties are marketed by the Group while the property is still under construction. In this situation, the Group may offer buyers a discount compared to the sales price payable, provided the buyer agrees to pay the balance of the purchase price early.

Currently, the revenue from property sales is recognised when the property is complete, measured at the amount received from the customer, irrespective of whether the customer pays early or on completion. However, under HKFRS 15 such advance payment schemes are likely to be regarded as including a financing component.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once HKFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue. Any adjustment to the transaction price under HKFRS 15, if considered necessary, would result in interest expense being recognised while the construction work is still in progress to reflect the effect of the financing benefit obtained from the customers, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer.

(c) *Sales with a right of return*

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of HKFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

HKFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. At 30 June 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$6,352,000 for properties, the majority of which is payable within 1 year. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has decided not to early adopt HKFRS 16 in its 2018 consolidated financial statements.

OVERVIEW

The Group has reported an increase in revenue, with a turn from profit into loss attributable to equity holders of the Company for the six months ended 30 June 2017 when compared to the six months ended 30 June 2016.

We now maintain existing business classified into five segments, namely, (i) manufacturing and sales of BOPP films; (ii) sales of sub-processing cigarette films; (iii) properties development and related services; (iv) generation of photovoltaic power; and (v) cloud-related business.

As to the segment of development and management of the properties, the pre-sale of property has been completed as at 30 June 2017, attracting profits is expected to be realised in the second half of this year. The factory in Qingdao City that mainly accommodates production facilities for the manufacturing of BOPP films is under expansion and another production line will be put into operation in late 2017.

FINANCIAL REVIEW

RESULTS OF OPERATION

Revenue

During the six months ended 30 June 2017, the principal activities of the Group included manufacturing and sales of BOPP films, sales of sub-processing cigarette films, properties development and related services, generation of photovoltaic power and operation of cloud platforms. Our revenue represents the sales value of goods sold provided less returns, discounts and value added taxes and other sales taxes and rendering of services. For the six months ended 30 June 2017, our revenue increased by HK$65.2 million, or by approximately 35.9%, from approximately HK$181.7 million for the six months ended 30 June 2016 to approximately HK$246.9 million, primarily as a result of the following:

Manufacturing and sales of BOPP films

The increase in revenue from manufacturing and sales of BOPP films by approximately 16.9%, from approximately HK$113.5 million for the six months ended 30 June 2016 to approximately HK$132.7 million for the six months ended 30 June 2017, was mainly due to the increase in sales of cigarette-related films by approximately 44.1%, from approximately HK$61.4 million for the six months ended 30 June 2016 to approximately HK$88.4 million for the six months ended 30 June 2017, primarily as a result of increase in customer base for cigarette-related films, offsetting by a decease in the sales of non-cigarette-related films by approximately 15.1%, from approximately HK$52.1 million for the six months ended 30 June 2016 to approximately HK$44.2 million for the six months ended 30 June 2017 due to the limitation of production capacity.

Sales of sub-processing cigarette films

The decrease in revenue from sales of sub-processing cigarette films by approximately 12.5%, from approximately HK$55.5 million for the six months ended 30 June 2016 to approximately HK$48.6 million for the six months ended 30 June 2017, was primarily due to the decrease in demand of customers for anti-counterfeiting films.

Properties development and related services

The pre-sales of the Xuzhou property project (the "Project") have been initiated since March 2016. All the Project's return is expected to be gradually realised in 2017. For the six months ended 30 June 2017, a sale of the Project amounted to approximately HK$35.1 million has been recognised.

Generation of photovoltaic power

The second photovoltaic power station has put into operation since June 2016 which doubled the production of electricity of our photovoltaic power stations and therefore an increase of revenue from approximately HK$12.7 million for the six months ended 30 June 2016 to approximately HK$24.2 million for the six months ended 30 June 2017 has been recorded.

Cloud-related business

For the six months ended 30 June 2017, a total of HK$3.5 million of revenue has been recorded.

Gross profit

Our gross profit decreased by approximately HK$6.4 million, or by approximately 9.8%, from approximately HK$65.3 million for the six months ended 30 June 2016 to approximately HK$58.9 million for the six months ended 30 June 2017. Our gross profit margin decreased from approximately 36.0% for the six months ended 30 June 2016 to approximately 23.9% for the six months ended 30 June 2017. The decrease was mainly due to the increase in price of the purchase cost of polypropylene in 2017.

Selling and Distribution cost

Our selling and distribution expenses decreased by approximately HK$5.6 million, or by approximately 35.3%, from approximately HK$15.9 million for the six months ended 30 June 2016 to approximately HK$10.3 million for the six months ended 30 June 2017. The decrease of the expenses was mainly due to a decrease of HK$5.1 million from approximately HK$6.9 million for the six months end 30 June 2016 to HK$1.8 million for the six months ended 30 June 2017 as the pre-sale of the Project was made since 2016 and most of them ended in 2017, less advertising expense has been incurred early this year.

Administrative expenses

Our administrative expenses increased by approximately HK$4.8 million, or by approximately 13.0%, from approximately HK$37.2 million for the six months ended 30 June 2016 to approximately HK$42.0 million for the six months ended 30 June 2017. The increase was mainly due to the increase of staff costs amounted to approximately HK$2.8 million and the research expenses incurred in our manufacturing of BOPP films amounted to approximately HK$1.9 million.

Finance costs

The finance costs decreased by approximately 37.7% from approximately HK$5.9 million for the six months ended 30 June 2016 to approximately HK$3.7 million for the six months ended 30 June 2017, primarily was in line with the decrease of our borrowings.

Income tax

Our income tax decreased by approximately HK$3.5 million from approximately HK$7.0 million for the six months ended 30 June 2016 to approximately HK$3.5 million for the six months ended 30 June 2017. It was due to our subsidiaries, Jiangsu Sheen Colour Science Technology Company Limited and Qingdao Ener Packaging Technology Company Limited, have entitled as Advanced Technology Enterprises which have been subject to a preferential tax rate of 15% lately last year; the positive effect of such application of 15% tax rate amounted to approximately HK$2.6 million.

Loss attributed to shareholders of the Company

As a result of the foregoing factors, loss attributable to equity shareholders of the Company for the six months ended 30 June 2017 was of approximately HK$17.5 million as compared with profit of approximately HK$0.1 million for the six months ended 30 June 2016.

Liquidity and financial resources

As at 30 June 2017, the cash and cash equivalent of the Group amounted to approximately HK$292.3 million (which were denominated in HKD, RMB and USD) compared with approximately HK$171.0 million as at 31 December 2016, representing an increase of approximately HK$121.3 million. For the six months ended 30 June 2017, the Group's net cash outflow of operating activities, net cash inflow of investment activities and net cash outflow of financing activities amounted to approximately HK$1.6 million, HK$139.6 million and HK$8.2 million respectively.

Borrowing and Gearing ratio

Total interest-bearing borrowings of the Group as at 30 June 2017 was approximately HK$142.8 million which were denominated in RMB, US dollar and HK dollar. The Group's gearing ratio, measured by net debt divided by shareholders' equity as at the end of the periods and multiplied by 100%, decreased from 27.7% as at 31 December 2016 to -9.6% as at 30 June 2017. The decrease was primarily due to the payback of bank loans.

Exposure to fluctuation in exchange rate

The Group is exposed to currency risk primarily through sales and purchases made by the PRC subsidiaries which gives rise to receivables, payables, cash balances and bank loans that are denominated in US dollar. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

As the functional currency for all subsidiaries in the PRC are RMB, these subsidiaries are not exposed to any currency risk due to the exchange rate movement of RMB. For subsidiaries established outside of the PRC, they have no material financial assets and liabilities denominated in RMB. Accordingly, the Group's exposure to RMB risk is insignificant.

Capital expenditure

During the six months ended 30 June 2017, the Group's total capital expenditure amounted to approximately HK$18.4 million (for the six months ended 30 June 2016: approximately HK$131.5 million). The capital expenditure was mainly incurred for the construction in progress of our Huai'an factory.

Charge on assets

As at 30 June 2017, the Group had pledged its lease prepayments, machinery and building held for own use with net book value of approximately HK$143.9 million (as at 31 December 2016: approximately HK$145.4 million) for the purpose of securing loans with carrying value of approximately HK$117.2 million (as at 31 December 2016: approximately HK$118.5 million).

Significant investment, material acquisition and disposals

There was no important investment event affecting the Group for the six months ended 30 June 2017.

Contingent liabilities

As at 30 June 2017, the Group did not have any significant contingent liabilities (as at 31 December 2016: nil).

Human resources

As at 30 June 2017, the Group employed 373 employees (as compared with 346 employees as at 30 June 2016) with a total staff costs of approximately HK$29.6 million incurred for the six months ended 30 June 2017 (as compared with approximately HK$22.8 million for the six months ended 30 June 2016). The Group's remuneration packages are generally structured with reference to market terms and individual merits. The Company has also adopted a pre-IPO share option scheme and a share option scheme to provide incentive or reward to high-calibre employees and attract human resources that are valuable to the Group.

Interim Dividend

The Board approved the payment of an interim dividend of HK$0.01 per share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: HK$0.05 per share) to the shareholders whose names appear on the register of members of the Company on 26 September 2017, being the record date for determining entitlements of the shareholders of the Company to the approved interim dividend. The approved interim dividend will be payable on or around 13 October 2017. For determining entitlement to the interim dividend, the register of members of the Company will be closed from 25 September 2017 to 26 September 2017, both days inclusive. In order to qualify for the approved interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 22 September 2017.

Subsequent events

On 31 August 2017, the Company declared an interim dividend of HK$0.01 per share.

Save as disclosed, there was no important event affecting the Group after 30 June 2017 and up to the date of this announcement.

Prospects

In order to satisfying increasing orders from BOPP film customers, a third production line will be put into operation in late 2017. We have confidence that the scale of BOPP will achieve a steady growth in coming years.

With consecutive subsidy from local government in the PRC as well as revenue from transmit to local grid, photovoltaic power made a quite attractive breakthrough, which encouraged us to seek more opportunities in Jiangsu Province, if any.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sales or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

Corporate Governance Code

The Company has complied with all code provisions under the code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2017, except for the deviation from code provision A.1.8 of the Code as described below.

Under code provision A.1.8 of the Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company does not have such insurance cover for its Directors. This a deviation from code provision A.1.8 of the Code.

With regular, timely and effective communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual litigation against the Directors is relatively low. The Company will review and consider to make such arrangement as and when it thinks necessary.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the code of conduct and the required standard set out in the Model Code regarding directors' securities transactions during the six months ended 30 June 2017.

Audit Committee

The Company has an audit committee (the "Audit Committee") with terms of reference aligned with the provisions of the Code for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Lo Wa Kei, Roy, as its chairman, Ms. Fan Qing and Mr. Fong Wo, Felix.

The interim financial results of the Group for the six months ended 30 June 2017 is unaudited but has been reviewed by the Audit Committee.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float during the six months ended 30 June 2017 as required under the Listing Rules.

By order of the Board
Sheen Tai Holdings Group Company Limited
Guo Yumin
Chairman

Hong Kong, 31 August 2017

As at the date of this announcement, the executive Directors are Mr. Guo Yumin, Ms. Xia Yu, Mr. Zeng Xiangyang and Mr. Guo Cheng and the independent non-executive Directors are Ms. Fan Qing, Mr. Lo Wa Kei, Roy and Mr. Fong Wo, Felix.