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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board of directors (the "**Board**") of Huan Yue Interactive Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 together with comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017
(Expressed in RMB)

	Note	2017 *RMB'000*	2016 *RMB'000*
Revenue	*4(a)*	**4,495,001**	3,435,511
Cost of sales		**(3,970,567)**	(2,882,979)
Gross profit		**524,434**	552,532
Other income	*5*	**27,553**	29,292
Distribution expenses		**(52,128)**	(48,385)
Administrative expenses		**(205,349)**	(266,492)
Other expenses	*6*	**(80,345)**	(106,397)

	Note	2017 RMB'000	2016 RMB'000
Profit from operations		**214,165**	160,550
Finance income		**13,814**	4,346
Finance costs		**(50,032)**	(52,757)
Net finance costs	*7(a)*	**(36,218)**	(48,411)
Profit before taxation		**177,947**	112,139
Income tax	*8*	**(39,153)**	(22,330)
Profit for the year		**138,794**	89,809
Attributable to:			
Equity shareholders of the Company		**135,544**	84,805
Non-controlling interests		**3,250**	5,004
Profit for the year		**138,794**	89,809
Earnings per share			
Basic *(RMB)*	*9*	**0.16**	0.10
Diluted *(RMB)*	*9*	**0.16**	0.10

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Expressed in RMB)

	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**138,794**	89,809
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas operations	**2,692**	(2,190)
Other comprehensive income for the year	**2,692**	(2,190)
Total comprehensive income for the year	**141,486**	87,619
Attributable to:		
Equity shareholders of the Company	**138,236**	82,615
Non-controlling interests	**3,250**	5,004
Total comprehensive income for the year	**141,486**	87,619

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017
(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	10	**978,621**	1,098,740
Lease prepayments		**13,351**	13,840
Intangible assets		**5,100**	8,760
Goodwill	11	**138,153**	138,153
Deposits for acquisition of property, plant and equipment		**4,823**	3,647
Loans and receivables		**3,037**	–
Deferred tax assets		**34,286**	25,851
		1,177,371	1,288,991
Current assets			
Inventories	12	**654,182**	584,416
Trade and other receivables	13	**529,726**	461,103
Derivative financial instruments		**1,765**	4,304
Restricted bank deposits		**116,093**	49,570
Bank deposits with maturity over three months		**10,000**	–
Cash and cash equivalents		**166,319**	168,942
		1,478,085	1,268,335
Current liabilities			
Trade and other payables	14	**615,299**	829,592
Interest-bearing borrowings	15	**627,751**	622,271
Derivative financial instruments		**11,607**	4,949
Income tax payable		**48,319**	23,841
		1,302,976	1,480,653
Net current assets/(liabilities)		**175,109**	(212,318)
Total assets less current liabilities		**1,352,480**	1,076,673
Non-current liabilities			
Interest-bearing borrowings	15	**231,000**	80,000
Contingent consideration payable	14	**23,704**	46,093
Deferred income		**49,760**	49,449
Deferred tax liabilities		**8,775**	15,241
		313,239	190,783
NET ASSETS		**1,039,241**	885,890
CAPITAL AND RESERVES			
Share capital		**75,458**	73,687
Reserves		**936,714**	784,444
Total equity attributable to equity shareholders of the Company		**1,012,172**	858,131
Non-controlling interests		**27,069**	27,759
TOTAL EQUITY		**1,039,241**	885,890

1 REPORTING ENTITY AND BACKGROUND INFORMATION

Huan Yue Interactive Holdings Limited (the "**Company**", formerly known as "**Xingye Copper International Group Limited**") 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 consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**"). The principal activities of the Group are the manufacture and sale of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online game business in August 2016 (note 14), the Group's activities also include developing, publishing and operating online games and provision of related services.

2 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRSs), which collective term includes all applicable individual International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and related Interpretations, issued by the International Accounting Standards Board (IASB), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in notes to the consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to *IAS 7, Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 year is as follows:

	2017	2016
	RMB'000	*RMB'000*
Copper products related:		
– Sales of high precision copper plates and strips	**4,004,431**	3,202,160
– Processing service fees	**203,616**	160,906
– Trading of raw materials	**245,089**	55,849
	4,453,136	3,418,915
Online games related:		
– Technical service income	**12,572**	9,580
– Publishing and operating online games	**28,015**	6,698
– Others	**1,278**	318
	41,865	16,596
	4,495,001	3,435,511

The Group's customer base for copper products is diversified and no single customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2017. During the year ended 31 December 2016, there was one customer with which the total transactions amount exceeded 10% of the Group's revenues, and revenues from sales of high precision copper plates and strips to this customer amounted to RMB475,280,000. Further details regarding the Group's principal activities are disclosed below:

(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 of 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, assets and liabilities

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

Segment assets include all assets in the consolidated financial statements. Segment liabilities include all liabilities with the exception of unallocated corporate liabilities.

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. Changes in fair value of contingent consideration payables is not included in the measure of the segments' profit that is used by the most 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 years ended 31 December 2017 and 2016 is set out below.

	Copper products		**Online games**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**4,453,136**	3,418,915	**41,865**	16,596	**4,495,001**	3,435,511
Inter-segment revenue	**520**	–	**–**	–	**520**	–
Reportable segment revenue	**4,453,656**	3,418,915	**41,865**	16,596	**4,495,521**	3,435,511
Reportable segment profit (profit before taxation)	**152,531**	105,816	**22,527**	6,323	**175,058**	112,139
Interest income from bank deposits	**1,635**	2,356	**52**	9	**1,687**	2,365
Net interest expense	**(40,334)**	(33,605)	**–**	–	**(40,334)**	(33,605)
Depreciation and amortisation for the year	**(88,988)**	(74,314)	**(3,530)**	(1,466)	**(92,518)**	(75,780)
Impairment of plant and machinery	**(38,802)**	(105,120)	**–**	–	**(38,802)**	(105,120)
Reportable segment assets	**2,451,499**	2,381,621	**204,137**	175,765	**2,655,636**	2,557,386
Additions to non-current segment assets during the year	**29,246**	122,808	**28**	148,539	**29,274**	271,347
Reportable segment liabilities	**1,554,249**	1,583,707	**20,492**	9,106	**1,574,741**	1,592,813

(ii) Reconciliations of reportable segment revenue and profit before taxation

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenues	**4,495,521**	3,435,511
Elimination of inter-segment revenue	**(520)**	–
Consolidated revenue	**4,495,001**	3,435,511

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation		
Reportable segment profit	**175,058**	112,139
Change in fair value of contingent consideration payables	**2,889**	–
Consolidated profit before taxation	**177,947**	112,139

(iii) Reconciliations of reportable segment assets and liabilities

	2017	2016
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**2,655,636**	2,557,386
Elimination of inter-segment receivables	**(180)**	(60)
Consolidated total assets	**2,655,456**	2,557,326

	2017	2016
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,574,741**	1,592,813
Elimination of inter-segment payables	**(180)**	(60)
Unallocated corporate liabilities	**41,654**	78,683
Consolidated total liabilities	**1,616,215**	1,671,436

(iv) 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.

	2017	2016
	RMB'000	*RMB'000*
Revenue		
PRC	**3,788,254**	3,049,316
Others	**706,747**	386,195
	4,495,001	3,435,511

The Group's non-current assets (excluding deferred tax assets) are all located in mainland China. 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, and the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

5 OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Government grants	**24,904**	18,912
Gain on liquidation of interest in a joint venture	**–**	1,467
Gains on derivative financial instruments	**–**	6,152
Gain on disposal of property, plant and equipment	**50**	139
Others	**2,599**	2,622
	27,553	29,292

Government grants represent unconditional government grants of RMB20,315,000 (2016: RMB15,916,000) awarded to the Group as a recognition of the Group's contribution to the development of the local economy, and the amortisation of deferred government grants of RMB4,589,000 during the year ended 31 December 2017 (2016: RMB2,996,000).

6 OTHER EXPENSES

	2017	2016
	RMB'000	*RMB'000*
Impairment losses on property, plant and equipment *(note 10)*	**38,802**	105,120
Impairment losses on trade and other receivables	**462**	–
Loss on disposal of property, plant and equipment	**21,887**	672
Loss on derivative financial instruments	**17,167**	–
Loss on disposal of intangible assets	**204**	–
Loss on disposal of interest in a subsidiary	**–**	7
Others	**1,823**	598
	80,345	106,397

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2017	2016
	RMB'000	*RMB'000*
Interest income on bank deposits	**1,687**	2,365
Change in fair value of contingent consideration payables *(note14(b))*	**2,889**	19
Net foreign exchange gain	**9,238**	–
Gains from foreign exchange forward contracts and interest rate swap contracts	**–**	1,962
Finance income	**13,814**	4,346
Interest expenses	**(42,335)**	(43,117)
Less: interest expenses capitalised*	**2,001**	9,512
Net interest expense recognised in profit or loss	**(40,334)**	(33,605)
Net foreign exchange loss	**–**	(19,152)
Losses from foreign exchange forward contracts	**(9,698)**	–
Finance costs	**(50,032)**	(52,757)
Net finance costs	**(36,218)**	(48,411)

* The borrowing costs were capitalised at rates of 1.28%~5.73% per annum in 2017 (2016: 1.02%~6.72% per annum).

(b) Personnel costs

	2017	2016
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**127,222**	120,359
Contributions to defined contribution plan	**6,174**	6,021
	133,396	126,380

The Group participates in pension funds organised by the PRC government. According to the related pension fund regulations, the Group is required to pay annual contributions during the year. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees employed by the Group in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(c) Other items

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories (i)	**3,963,051**	2,878,577
Depreciation	**88,703**	73,981
Amortisation		
– Lease prepayments	**359**	359
– Intangible assets	**3,456**	1,440
Impairment loss on property, plant and equipment *(note 10)*	**38,802**	105,120
Research and development expenditure (included in administrative expenses)	**112,218**	164,947
Operating lease charges	**1,125**	648
Auditor's remuneration-audit services	**2,250**	2,890

(i) Cost of inventories includes RMB110,261,000 (2016: RMB91,588,000) relating to staff costs and depreciation expenses whose amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each type of expense.

8 INCOME TAX

	2017	2016
	RMB'000	*RMB'000*
Current tax		
Provision for the year	**52,758**	41,854
Over-provision in respect of prior year	**(367)**	(812)
	52,391	41,042
Deferred tax		
Origination and reversal of temporary differences	**(7,401)**	(33,712)
PRC withholding tax	**(5,837)**	15,000
	39,153	22,330

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

(ii) The applicable profits tax rate of the Group's subsidiaries incorporated in Hong Kong was 16.5% (2016: 16.5%).

(iii) The provision for PRC income tax is based on the respective Corporate Income Tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

For the year ended 31 December 2017, the standard income tax rate for all companies established in the PRC was 25%, except for Hefei Yueyou Network Technology Co., Ltd. ("**Yueyou**"). Yueyou has been certified as a "Software Enterprise" and is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years, starting from the first year in which revenue is generated. In accordance with the local tax authority's notice, the applicable income tax rates for Hefei Yueyou are 0% in 2017 and 2018, and 12.5% from 2019 to 2021.

(iv) The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As at 31 December 2017, a preferential withholding tax rate of 5% is applied, since Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**"), the parent company of the Group's PRC subsidiaries, became entitled to the preferential withholding tax rate of 5%, having been certified as the tax resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income". As a result, deferred tax liabilities of RMB7,500,000 (2016: RMB15,000,000) were recognised in connection with withholding tax that would be payable on the distribution of retained profits of the Group's PRC subsidiaries as at 31 December 2017, and an income tax credit of RMB5,837,000 as a result of the withholding income tax rate being reduced from 10% to 5%.

9 BASIC AND DILUTED 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 RMB135,544,000 (2016: RMB84,805,000) and the weighted average number of 825,455,631 ordinary shares (2016: 809,806,092) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2017	2016
Ordinary shares in issue at 1 January	**807,094,950**	811,115,950
Effect of shares purchased/vested under Share Award Scheme *(note 17)*	**(1,635,986)**	(1,309,858)
Effect of new shares issued	**14,079,845**	–
Effect of ordinary shares issuable in connection with the contingent consideration payable relating to an acquisition in 2016	**5,916,822**	–
Weighted average number of ordinary shares in issue at 31 December	**825,455,631**	809,806,092

(b) Diluted earnings per share

The Share Award Scheme (note 17) granted by the Group have dilutive effect on the earnings per share ("**EPS**"). Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share awards granted by the Group (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB135,544,000 (2016: RMB84,805,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares amounting to 850,100,291 ordinary shares (2016: 817,914,330), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December (basic)	**825,455,631**	809,806,092
Effect of Share Award Scheme *(note 17)*	**199,104**	–
Effect of contingently issuable ordinary shares	**24,445,556**	8,108,238
Weighted average number of ordinary shares at 31 December (diluted)	**850,100,291**	817,914,330

10 PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2016, the Group identified indicators of potential impairment of a copper product production line with a carrying amount of RMB344,407,000 because certain technical specifications of the production line's key machinery were not satisfactory enough to produce the budgeted specialised output and also because the capacity of the production line was affected, which could lead to economic or functional obsolescence. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their recoverable amount of RMB264,136,000. An impairment loss of RMB80,271,000 was recognised. The estimates of recoverable amount were based on fair value less costs of disposal, using a cost approach. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd. and certain land and buildings became idle. During the year ended 31 December 2016, the Group assessed the recoverable amount of the related machinery and equipment, land and buildings, and as a result, an impairment loss of RMB24,849,000 was recognised for the machinery and equipment and no impairment loss was recognised for the land and buildings. During the year ended 31 December 2017, the Group re-assessed the recoverable amount of the land and buildings and as a result, the carrying amount of the land and buildings was written down to their estimated recoverable amount of RMB21,200,000. An additional impairment loss of RMB2,639,000 was recognised in "Other expenses" in 2017. The estimates of recoverable amount were based on fair value less costs of disposal, using the cost approach for the buildings and structure parts and market approach for land use rights. The fair value estimates on which the recoverable amount is based is categorised as a Level 3 measurement.

During the year ended 31 December 2017, the Group identified indicators of potential impairment of the hot dip tinning production line which was not yet ready for use, with a carrying amount of RMB40,356,000, because certain technical specifications of the production line were not satisfactory enough to produce the intended specialised output. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their estimated recoverable amount of RMB4,193,000. An impairment loss of RMB36,163,000 was recognised in "Other expenses" in 2017. The estimates of recoverable amount were based on fair value less costs of disposal, using a cost approach. The fair value estimates on which the recoverable amount is based is categorised as a Level 3 measurement.

11 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	–
Acquisition through business combination	138,153
At 31 December 2016 and 31 December 2017	138,153
Accumulated impairment loss:	
At 1 January 2016 and 31 December 2016	–
Impairment loss	–
At 31 December 2017	–
Net book value:	
At 31 December 2017	138,153
At 31 December 2016	138,153

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("**CGU**") identified according to operating segment as follows:

	2017	2016
	RMB'000	*RMB'000*
Online games	**138,153**	138,153

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the value-in-use calculation are as follows:

	2017	2016
Pre-tax discount rate	**31.5%**	38.3%
Long-term revenue growth rate	**2.5%**	3%
Revenue growth rates over next five years	**5%-29%**	20%-42%

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average revenue growth rate of 2.5% (2016: 3%). The growth rate used does not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 31.5% (2016: 38.3%). The discount rate used reflects specific risks relating to the relevant business. The revenue growth rates are based on past performance and expectations of market developments.

The estimated recoverable amount of the cash-generating unit exceeded its carrying amount by approximately RMB4,270,000 as at 31 December 2017. Management has considered a reasonably possible change in the discount rate that could cause the recoverable amount of the cash-generating unit to be less than the carrying amount at the end of the reporting period. With other assumptions remaining unchanged, the pre-tax discount rate would need to increase to higher than 32.4% in respect of the impairment test of year 2017, for the estimated recoverable amount to be less than the carrying amount.

12 INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**85,617**	110,656
Work in progress	**373,846**	381,816
Finished goods	**194,197**	91,425
Others	**522**	519
	654,182	584,416

Provisions of RMB6,269,000 (2016: RMB3,768,000) were made against those inventories with net realisable value lower than carrying value as at 31 December 2017. Except for the above, none of the inventories as at 31 December 2017 were carried at net realisable value (2016: Nil).

Certain inventories with aggregate carrying amount of RMB255,670,000 were pledged as security for bank loans at 31 December 2017 (2016: RMB255,670,000) (note 15).

13 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade and bills receivables	**469,711**	358,093
Less: allowance for doubtful debts *(note 13(b))*	**(462)**	–
	469,249	358,093
Deposits for metal future contracts	**12,044**	11,632
VAT recoverable	**27,440**	76,792
Prepayments	**19,495**	12,004
Others	**1,498**	2,582
	529,726	461,103

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 record.

As at 31 December 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, in the amount of RMB10,176,000 (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 receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

As at 31 December 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 31 December 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by the Group to banks or suppliers in respect of discounted bills and endorsed bills should the issuing banks fail to settle the bills on maturity date, amounted to RMB11,676,000 (2016: RMB12,803,000).

(a) Ageing analysis

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**444,176**	333,285
Over 3 months but less than 6 months	**24,981**	23,949
Over 6 months but less than 1 year	**7**	792
Over 1 year	**85**	67
	469,249	358,093

As at 31 December 2017, the Group's bills receivables with aggregate carrying value of approximately RMB161,815,114 (2016: RMB70,023,000) were pledged to banks for issuance of bank acceptance bills.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables 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 written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**–**	–
Impairment loss recognised	**462**	–
At 31 December	**462**	–

At 31 December 2017, trade and bills receivables of RMB1,540,000 were individually determined to be impaired. The individually impaired receivables related to new customers for whom there is no history of repayment and was overdue over 30 days, management assessed that only a portion of the receivables is expected to be recovered.

(c) Trade and bills receivables that are not impaired

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**464,293**	350,465
Less than 3 months past due	**3,786**	6,769
Over 3 months past due	**92**	859
	3,878	7,628
	468,171	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 in collection of trade receivables from customers, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of customers and the balances are still considered fully recoverable.

14 TRADE AND OTHER PAYABLES

		2017	2016
		RMB'000	*RMB'000*
Trade and bills payables	*(a)*	**500,492**	652,903
Advances received from customers		**24,424**	37,288
Staff benefits payable		**24,588**	23,225
Payables for purchase of property, plant and equipment		**34,484**	55,839
Cash consideration payable in connection with business combination	*(b)*	**–**	16,638
Contingent share consideration payable	*(b)*	**17,950**	15,952
Accrued expenses and others		**13,361**	27,747
		615,299	829,592

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**457,527**	473,412
Over 3 months but within 6 months	**23,160**	150,283
Over 6 months but within 1 year	**16,854**	27,037
Over 1 year	**2,951**	2,171
	500,492	652,903

(b) On 5 August 2016 ("the Acquisition Date"), the Group obtained control of Funnytime Limited ("**Funnytime**") and its subsidiaries (collectively, the "**Target Group**") by acquiring 100% of the shares and voting interest in Funnytime from the vendor Mobilefun Limited ("**Mobilefun**"), a company with 42% equity interest held by Mr. Ren Hao, who became one of the directors of the Group upon the completion of the Acquisition. The total consideration payable by the Group comprised fixed cash consideration of RMB83,649,000 and contingent consideration to be settled in the form of cash and newly issued ordinary shares of the Company depending on achievement of the Target Group's adjusted net profit for each performance year from 2016 to 2018.

At 31 December 2017, the fair value of contingent consideration payables to Mobilefun was RMB41,654,000 (2016: RMB78,683,000), of which RMB17,950,000 (2016: RMB32,590,000) was included in trade and other payables and RMB23,704,000 (2016: RMB46,093,000) was included in non-current contingent consideration payable, respectively in the Group's consolidated statement of financial position.

The decrease in the balance of contingent consideration payables during the year was attributable to the payment of cash consideration payable of HKD18,600,000 (equivalent to RMB16,521,000) to Mobilefun, issuance of 19,996,667 number of ordinary shares to Mobilefun at a fair value of HKD16,197,000 (equivalent to RMB14,347,000) and a decrease in fair value of the contingent consideration payables, which was recorded in finance income (note 7(a)).

15 INTEREST-BEARING BORROWINGS

At 31 December 2017, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	2017	2016
	RMB'000	*RMB'000*
Current		
Short-term secured bank loans	**469,893**	172,700
Unsecured bank loans	**112,413**	200,803
Bank advances under discounted bills	**45,445**	20,000
Current portion of non-current secured bank loans	**–**	228,768
	627,751	622,271
Non-current		
Secured bank loans	**231,000**	80,000
	858,751	702,271

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**–**	228,768
Over 1 year but less than 2 years	**171,000**	–
Over 2 years but less than 5 years	**60,000**	80,000
	231,000	80,000
	231,000	308,768

(ii) The Group's interest-bearing borrowings in the amount of RMB420,500,000 (2016: RMB80,000,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the year ended 31 December 2017, none of these covenants related to drawn down facilities were breached.

(iii) The secured bank loans as at 31 December 2017 bore interest at rates ranging from 2.15% to 7.5% (2016: 1.28% to 6.72%) per annum and were pledged by the following assets:

	2017	2016
	RMB'000	*RMB'000*
Carrying amounts of assets:		
Inventories	**255,670**	255,670
Property, plant and equipment	**611,444**	897,591
Lease prepayments	**13,351**	13,840
Guarantee deposits for bank borrowings	**58,818**	–
	939,283	1,167,101

(iv) Unsecured bank loans as at 31 December 2017 bore interest at rates ranging from 2.21% to 4.35% (2016: 1.28% to 4.57%) per annum.

16 DIVIDENDS

No dividend was declared nor paid to equity shareholders of the Company for the years ended 31 December 2016 and 2017.

17 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 18 April 2016, 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 has 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 on the trust (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 at any time.

As the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company (the "**Awarded Shares**") through their continued employment with the Group, the Group is required to consolidate the Trust.

As at 31 December 2017, the Company had contributed HKD7,000,000 (equivalent to RMB6,078,000) (2016: HKD7,000,000 (equivalent to RMB6,078,000)) to the Trust and the amount was recorded as "Investments in subsidiaries" in the Company's statement of financial position.

As at 31 December 2017, the Trustee had purchased 8,137,000 shares (2016: 4,021,000 shares) of the Company at a total cost (including related transaction costs) of HKD6,999,000 (equivalent to RMB6,124,000) (2016: HKD3,712,000 (equivalent to RMB3,256,000)).

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

	2017			2016		
	Average purchase price *HKD*	**No. of shares held**	**Value** *RMB'000*	Average purchase price *HKD*	No. of shares held	Value *RMB'000*
At 1 January	**0.92**	**4,021,000**	**3,256**	–	–	–
Shares purchased during the year	**0.80**	**4,116,000**	**2,868**	0.92	4,021,000	3,256
Shares vested and transferred to an employee during the year	**–**	**(400,000)**	**(307)**	–	–	–
At 31 December	**0.86**	**7,737,000**	**5,817**	0.92	4,021,000	3,256

According to the Resolution of the Administration Committee of the Company on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group at nil consideration, with 40%, 30% and 30% of the shares to be vested on 15 June 2017, 15 June 2018 and 15 June 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) was determined with reference to the closing price of the Company's ordinary shares on 26 May 2017. 400,000 Awarded Shares were vested and transferred to the grantee during 2017.

According to the Resolution of the Administration Committee of the Company on 13 December 2017, 10,060,000 ordinary shares held under the Share Award Scheme were granted to 9 directors and 91 employees of the Group at nil consideration, with 5,280,000 shares, 2,152,000 shares and 2,628,000 shares to be vested on 13 December 2017, 13 December 2018 and 13 December 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.85 per share (equivalent to approximately RMB0.72 per share) was determined with reference to the closing price of the Company's ordinary shares on 13 December 2017. 5,280,000 Awarded Shares were vested on 13 December 2017, but had not been transferred to grantees as at 31 December 2017.

(ii) Movements in the number of Awarded Shares for the year ended 31 December 2017 and 2016 are as follows:

	Number of Awarded Shares
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Granted	11,060,000
Vested and transferred	(400,000)
At 31 December 2017	10,660,000
Vested but not transferred as at 31 December 2017	5,280,000

During the year ended 31 December 2017, 4,800,000 out of the 11,060,000 Awarded Shares with a fair value of RMB3,463,000 (2016: nil) were granted to nine directors of the Company (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL BUSINESS REVIEW

The Group's total turnover amounted to RMB4,495.0 million, representing a growth rate of 30.8% compared to RMB3,435.5 million in 2016. The Group's profit attributable to the shareholders increased by 59.8% to RMB135.5 million, from RMB84.8 million in 2016.

ONLINE GAMES BUSINESS

Industry Review

According to *2017 China Game Industry Reports* ("**Report**"), China's game industry continued to develop steadily as a whole. The overall operating revenue amounted to RMB203.61 billion, representing an increase of 23.0% as compared to that of the corresponding period of last year. Among which, online games contributed a greater proportion to the operating revenue, which amounted to RMB151.32 billion in the first three quarters. The operating revenue for the whole year is RMB196.58 billion, representing an increase of 23.7% as compared to that of the corresponding period of last year.

According to the Report, in 2017, the number of user-terminal game players reached approximately 150 million, which was comparable to that of the corresponding period of 2016; mobile game players amounted to approximately 460 million, representing an increase of 9.0% compared to that of the corresponding period of last year; web game players amounted to approximately 240 million, representing a decrease of 2.0% as compared to that of the corresponding period of last year.

Although the increase in users of online games has experienced slowdown, the percentage of core users showed an increase. Overall, game players' appreciation level has increased, so has their awareness of genuine versions. This provides a good development opportunity for good-quality and innovative independent games. Low-quality games will be phased out from the market.

Business Review

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

Funnytime achieved total revenue of RMB41.9 million and net profit of RMB21.5 million for the year ended 31 December 2017, representing an increase of 21.8% and 23.6% respectively over 2016. The adjusted net profit (as defined in the sale and purchase agreement) of RMB22.9 million for year 2017, representing an increase of 19.3% over RMB19.2 million of year 2016. According to the sale and purchase agreement, Funnytime shall achieve performance target of net profit (after adjustments for pre-agreed items as stipulated in the sales and purchase agreement) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for year ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively. Funnytime's adjusted net profit has fulfilled its performance targets for both years ended 31 December 2016 and 31 December 2017. On 18 April 2017, 19,996,667 consideration shares were allotted and issued to Mobilefun pursuant to the sales and purchase agreement. Funnytime was consolidated into the Group's financial statements from the acquisition date of 5 August 2016, with its net profit of RMB6.2 million from the acquisition date to 31 December 2016. Net profit of RMB21.5 million was consolidated in the Group's financial statements for the year ended 31 December 2017.

Games

Operation Center:

In 2017, Zhangyue has further improved product layouts and business segments. Its traditional web game business continued to maintain a sound development. In the competitive leisure category, both Bosozoku (《暴走裝甲》) – a carrier shooting product, and Double Tap Hero (《槍王英雄》) – a first-person shooting product, reached more than 50,000 DAU (daily active users). The Art of War and Three Kingdoms (《兵法三國》) – a product in the strategic category was widely promoted after it was launched online. It is expected to continue to contribute stable income in 2018. In Acting Role Play Game ("**ARPG**") category, Zhangyue's new online products – New Scions of Fate (《新熱血江湖》) and Heart of the Overlord (《霸王之心》), received good feedbacks from players. Our new H5 game (mobile end web game) – Immortal Heroes (《傳世英雄》), was promoted widely on the Tencent Wanba platform and was entitled in 2017 as a top 10 product by Tencent Wanba. In 2017, Zhangyue also focused on expanding its operation to cover mobile games, which will lay a solid foundation for the Zhangyue's transformation toward mobile game operations. In 2018, the Company will continue to operate web games, such as, ARPG, competitive leisure, strategy, simulation and many other categories and products; actively expand H5 and mobile game business; and expand all kinds of promotion channels and create a self-owned H5 game platform (h5pk.com). Multiple heavy-weight intellectual products ("**IP**") products are expected to be online in the second half of 2018.

R&D Center:

In 2017, in addition to the traditional web game research and development ("**R&D**") business line, Zhangyue added mobile game line and H5 R&D line. Of which, mobile game and H5 game R&D contributed stable income to Zhangyue. The R&D center also provides custom-made game products for other game companies. Revenue from such business accounts for approximately 20.3% of Zhangyue total revenue (2016: Nil). In 2018, the R&D center will continue to undertake the research and development of multiple mobile games and H5 games, especially to dedicate efforts to launch heavy-weight IP web games and self-developed H5 products.

COPPER PLATES AND STRIPS BUSINESS

Market and Industry Review

In 2017, China's copper market continued an upward trend with fluctuations. The domestic copper market was affected by limitation policies on imports of seven types of waste copper, as a result, the copper price started to go significantly higher from the second half of the year and hit a new high in October during the period from year 2015 to year 2017. It is expected that, affected by copper mine strikes abroad, China's environmental protection policies and limitation policies on imports of seven types of waste copper, in 2018, the copper price will continue the high trend which occurred at the end of 2017. Under the background of global economic recovery, copper plates and strips industry prospects are expected to improve in the near future. Especially, with the promotion and adoption of the new energy vehicle, the copper processing industry will witness a new growth drive. Meanwhile, the PRC government's policies to realise intelligent manufacturing in 2025 will lead the industry to a transformation towards high-precision copper products development.

Business Review

During the reporting year, the Group's copper processing business realised a total revenue of RMB4,453.1 million and sales volume of 138,766 tons, representing an increase of 30.2% and 9.6% respectively over 2016. Revenue from precision copper plates and strips was RMB4,004.4 million, representing an increase of 25.1% from RMB3,202.2 million of last year. The sales volume of precision copper plates and strips was 89,607 tons, which was comparable with 89,541 tons of the corresponding period of 2016. The increase in copper plates and strips revenue was mainly due to an increase in copper price. During the reporting year, the revenue of copper products processing services reached RMB203.6 million, representing an increase of 26.5% from RMB160.9 million of last year. The volume of processing services was 40,442 tons, representing an increase of 25.5% from 32,231 tons of last year. During the reporting year, revenue from trading of raw materials was RMB245.1 million, representing an increase of 339.2% from RMB55.8 million of 2016. While trade sales were 8,717 tons, representing an increase of 80.6% from 4,826 tons of 2016. The increase in revenue and sales volume of trading was mainly attributable to an increase in the trading of raw materials resulting from the Group's sales structure change.

Business Development

Strategic adjustment: In order to adapt to the changing market environment and industry development demands, the Group started with adjustment of the organisational structure and set up a marketing department in 2017, with an aim to acquire market information or even predict market/industrial development trends, and to provide forward-looking information for management to make business decisions. Also, the Group established an R&D center to separate R&D from production in order to create an independent environment and provide sufficient support for developing new products.

Emphasis on quality instead of quantity: In order to create more value while avoiding simple price competition, since early 2017, the Group started to adjust its operation model to focus on winning by quality, by adding more high value-added products, and such strategies have yielded good results. During the reporting year, the Group's copper plates and strips operation company Ningbo Xingye Shengtai Group Limited ("**Shengtai Group**") was entitled as the top company among China's Top 10 copper plates and strips companies and was also recognised as one of Zhejiang Provincial Postdoctoral Workstations. The copper alloy strip developed by Shengtai Group, which is used for a kind of LED lead frame, has obtained a Zhejing manufacturing certification. In addition, one kind of high value-added phosphor bronze product made by Shengtai Group won the second prize for Technology Progress of Zhejiang Province in 2017.

Outlook

In 2018, "restructuring, increasing efficiency, reducing costs and seeking for development" will be the Group's working guidelines in the copper plates and strips business. Of which, "restructuring" will be mainly reflected in adjustment of product structure, and increase in the percentage of sales of high value-added products; "increasing efficiency" will be reflected in increasing the product yield and the rate of recycling and utilisation of resources; "reducing cost" will be reflected in lowering material consumption and electricity consumption in production, improving the efficient use efficiency of spare parts, and saving expenses; and "seeking for development" will be reflected in building up a marketing department, R&D center, talent teams and information system. All staff of the Group's copper plates and strips business will dedicate their efforts to lay a solid foundation for early realisation of our vision to be a worlds' first-class copper alloy plate and strip provider.

FINANCIAL REVIEW

Revenue and gross profit

The Group's copper business achieved a total revenue of RMB4,453.1 million for the year ended 31 December 2017, and the Group's online game business achieved revenue of RMB41.9 million.

For the year ended 31 December 2017, the Group recorded total sales revenue of RMB4,495.0 million, which increased by 30.8% from RMB3,435.5 million 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 processing services and increase in copper price during 2017.

The Group sold 138,766 tons of copper products, which increased by 9.6% from 126,598 tons of 2016.

The Group recorded a gross profit of RMB524.4 million in 2017, which decreased by 5.1% as compared with 2016. The decrease in gross profit is mainly because one of the Group's largest customers made less orders on a high margin brass product during 2017 than it did in 2016.

Other income

For the year ended 31 December 2017, the Group recorded other income of RMB27.6 million, which decreased by RMB1.7 million as compared to 2016. The Group had RMB6 million more in government grants than it did in 2016, but had no gains from derivative financial instruments in 2017 (2016: RMB6.2 million).

Other expenses

For the year ended 31 December 2017, other expenses of the Group was RMB80.3 million, which decreased by RMB26.1 million from RMB106.4 million in 2016. This was mainly because the Group had less impairment loss on property, plant and equipment of the Group's copper business in 2017 than it had in 2016.

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd. and certain land and buildings became idle. During the year ended 31 December 2016, the Group assessed the recoverable amount of the related machinery and equipment, land and buildings, and as a result, an impairment loss of RMB24,849,000 was recognised for the machinery and equipment and no impairment loss was recognised for the land and buildings. During the year ended 31 December 2017, the Group re-assessed the recoverable amount of the land and buildings and as a result, the carrying amount of the land and buildings was written down to their estimated recoverable amount of RMB21,200,000. An additional impairment loss of RMB2,639,000 was recognised in "Other expenses" in 2017.

During the year ended 31 December 2017, the Group identified indicators of potential impairment of the hot dip tinning production line which was not yet ready for use, with a carrying amount of RMB40,356,000, because certain technical specifications of the production line were not satisfactory enough to produce the intended specialised output. The Group assessed the recoverable amount of the related machinery and equipment and as a result, the carrying amount of the machinery and equipment was written down to their estimated recoverable amount of RMB4,193,000. An impairment loss of RMB36,163,000 was recognised in "Other expenses" in 2017.

Distribution expenses

For the year ended 31 December 2017, the distribution expenses of the Group increased by RMB3.7 million from RMB48.4 million of 2016 to RMB52.1 million, which was mainly due to an increase in the sales volume of copper processing services.

Administrative expenses

For the year ended 31 December 2017, administrative expenses of the Group decreased by RMB61.2 million from RMB266.5 million of 2016 to RMB205.3 million, which was mainly due to a decrease in R&D (research and development) expenses.

Net finance costs

For the year ended 31 December 2017, the Group's net finance costs decreased to RMB36.2 million from RMB48.4 million of 2016, which was mainly due to the net foreign exchange gain of RMB9.2 million.

Income tax

For the year ended 31 December 2017, the Group's income tax expenses increased by RMB16.9 million to RMB39.2 million from RMB22.3 million of 2016, and the effective tax rate increased to 22.0% from 19.9% of last year, which was mainly because the preferential tax rate of Shengtai Group had expired since 2017.

Profit attributable to the shareholders of the Company

As a result of the aforementioned factors, during the year, the profit attributable to the shareholders of the Company increased by RMB50.7 million to RMB135.5 million from RMB84.8 million of 2016.

Liquidity and financial resources

As at 31 December 2017, the Group recorded net current assets of RMB175.1 million, compared with net current liabilities of RMB212.3 million as at 31 December 2016, which was primarily because the Group had more trade receivables and inventories, but had less trade payables as compared with 2016.

The short-term interest-bearing borrowings represented 73.1% of total interest-bearing borrowings as of 31 December 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.

The Group is able to generate cash from operating activities, has good credit standing and relationships with principal lending banks, and possesses available undrawn banking facilities together with bank deposits of RMB537.6 million (including long term loan facilities amounted to RMB177.4 million effective until 2019) and RMB292.4 million (comprised of restricted bank deposits of RMB116.1 million, bank deposits with maturity over three months of RMB10 million and cash and cash equivalents of RMB166.3 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over 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 requirements and meet its foreseeable debt repayment requirements.

As at 31 December 2017, the Group had outstanding bank loans and other borrowings of approximately RMB627.8 million which shall be repaid within 1 year. As at 31 December 2017, 81.6% of the Group's debts were on a secured basis.

The net gearing ratio as at 31 December 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 equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

Charge on assets

As at 31 December 2017, the Group pledged assets with an aggregate carrying value of RMB939.3 million (31 December 2016: RMB1,167.1 million) to secure bank loan facilities.

Capital expenditure

For the year ended 31 December 2017, the Group had invested RMB46.0 million in the purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank loans. The Group acquired its gaming business subsidiaries in 2016, and paid RMB82.5 million (net of cash acquired) for the first installment of cash consideration for the acquisition. The acquisition was largely financed by internal resources.

Capital commitments

As at 31 December 2017, future capital expenditures, for which the Group had contracted but not provided for, amounted to approximately RMB3.5 million.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities.

MARKET RISK

The Group was exposed to various types of market risks, including fluctuation in copper prices and other commodities' prices and changes in interest rates and foreign exchange rates.

EMPLOYEES

As at 31 December 2017, the Group had 1,240 employees, of which the copper business and online gaming business had 1,151 and 89 employees respectively. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to our employees. Benefits of the employees include salaries, pension, medical insurance scheme and other applicable social insurance. In addition, share options or share awards may be granted or awarded to eligible employees of the Group (including directors) in accordance with the terms of the approved share option scheme or share award scheme respectively. Promotion and salary increments are assessed based on performance. The Group's success is dependent upon the skills and dedication of its employees. The Group recognises the importance of human resources in a competitive industry and has devoted resources to train employees. The Group has established an annual training program for our employees so that new employees can master the skills required to perform their roles and responsibilities and the existing employees can upgrade or improve their skills.

ENVIRONMENTAL AND REGULATORY POLICES

Environmental protection and energy conservation are the fundamental standards in our production and operations. The Group has made vigorous endeavors to foster the recycling of resources and has established dedicated recovery plants that recycle the relevant metals and other resources for remanufacturing purposes in order to minimise the impact on the environment. As part of our efforts to cut energy consumption, the Group has renovated certain equipment with high energy consumption. The Group will continue to use different ways to lower energy consumption and augment utilisation efficiency of energy.

The Group has required strict compliance of its suppliers with environmental regulations and will return and reject raw materials containing hazardous substances exceeding the recommended limits in terms of concentration or goods for which certificates, approvals and verification issued by relevant regulatory authorities have not been obtained.

The principal operating companies of the Group are situated in mainland China, whilst the Company was incorporated in the Cayman Islands and its shares are listed in Hong Kong. The Group has complied with all the relevant laws, rules and regulations in mainland China, the Cayman Islands and Hong Kong.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017, except that the trustee of the share award scheme adopted by the Company on 18 April 2016 (the "Share Award Scheme"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 4,116,000 shares of the Company at a total consideration of HKD3,287,000 (equivalent to RMB2,868,000) during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules during the year. Having made specific enquiries of Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of its Directors, as at the date of this announcement, the Company has maintained a public float of not less than 25% of the issue share capital of the Company as required under the Listing Rules.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company comprises two independent non-executive Directors namely, Mr. Chai Chaoming and Ms. Lu Hong and one non-executive Director, Mr. Dai Jianchun. The audit committee has reviewed the audited financial statements for the year ended 31 December 2017 and has also discussed and reviewed audit matters, risk management, internal control, continuing connected transactions and financial reporting matters including accounting practices and principles adopted by the Group.

AUDITOR

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditors, KPMG, to the amounts set out in the Group's consolidated financial statements for the year.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders of the Company who are entitled to attend and vote at the forthcoming annual general meeting to be held on 15 June 2018, the register of members of the Company will be closed from 12 June 2018 to 15 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 11 June 2018.

PUBLICATION OF 2017 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.huanyue.com.hk) and the Stock Exchange's designated website (www.hkexnews.com.hk). The Company's 2017 Annual Report and notice of annual general meeting will be made available on the above websites 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, 28 March 2018

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.