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Huan Yue Interactive Holdings Limited **歡悅互娛控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 505)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Huan Yue Interactive Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2018:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Six months ended 30 June	
	<i>Note</i>	2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
			(Note)
Revenue	5	2,557,297	2,001,740
Cost of sales		(2,363,505)	(1,769,310)
Gross profit		193,792	232,430
Other income		16,247	10,100
Distribution expenses		(23,685)	(25,071)
Administrative expenses		(93,306)	(115,253)
Other expenses		(23,423)	(406)
Profit from operations		69,625	101,800
Finance income		16,079	18,817
Finance costs		(29,450)	(24,723)
Net finance costs	6(a)	(13,371)	(5,906)

	<i>Note</i>	Six months ended 30 June	
		2018	2017
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
			(Note)
Profit before taxation		56,254	95,894
Income tax	7	<u>(7,616)</u>	<u>(20,321)</u>
Profit for the period		<u>48,638</u>	<u>75,573</u>
Attributable to:			
Equity shareholders of the Company		47,730	74,470
Non-controlling interests		<u>908</u>	<u>1,103</u>
Profit for the period		<u>48,638</u>	<u>75,573</u>
Earnings per share			
– Basic (<i>RMB cents</i>)	8(a)	5.60	9.02
– Diluted (<i>RMB cents</i>)	8(b)	<u>5.58</u>	<u>9.01</u>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(Note)
Profit for the period	48,638	75,573
Other comprehensive income for the period		
(after tax and reclassification adjustments):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<u>(3,876)</u>	<u>1,039</u>
Total comprehensive income for the period	<u>44,762</u>	<u>76,612</u>
Attributable to:		
Equity shareholders of the Company	43,854	75,509
Non-controlling interests	<u>908</u>	<u>1,103</u>
Total comprehensive income for the period	<u>44,762</u>	<u>76,612</u>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited) (Note)
	Note		
Non-current assets			
Property, plant and equipment		940,826	978,621
Lease prepayments		12,156	13,351
Intangible assets		3,547	5,100
Goodwill	9	119,650	138,153
Loans and receivables		3,126	3,037
Deferred tax assets		29,015	34,286
Deposits for acquisition of property, plant and equipment		12,177	4,823
		<u>1,120,497</u>	<u>1,177,371</u>
Current assets			
Inventories	10	683,978	654,182
Trade and other receivables	11	500,755	529,726
Derivative financial instruments		2,979	1,765
Restricted bank deposits		148,778	116,093
Bank deposits with maturity over three months		10,090	10,000
Cash and cash equivalents		171,746	166,319
		<u>1,518,326</u>	<u>1,478,085</u>
Current liabilities			
Contract liabilities	12	25,866	—
Trade and other payables	13	714,073	615,299
Interest-bearing borrowings	14	574,907	627,751
Derivative financial instruments		977	11,607
Income tax payables		14,296	48,319
		<u>1,330,119</u>	<u>1,302,976</u>
Net current assets		<u>188,207</u>	<u>175,109</u>
Total assets less current liabilities		<u>1,308,704</u>	<u>1,352,480</u>

	<i>Note</i>	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited) (Note)
Non-current liabilities			
Contract liabilities	12	576	–
Interest-bearing borrowings	14	161,000	231,000
Contingent consideration payable		–	23,704
Deferred income		45,050	49,760
Deferred tax liabilities		8,387	8,775
		<u>215,013</u>	<u>313,239</u>
Net assets		<u>1,093,691</u>	<u>1,039,241</u>
Capital and reserves			
Share capital		77,417	75,458
Reserves		992,761	936,714
Total equity attributable to equity shareholders of the Company		1,070,178	1,012,172
Non-controlling interests		23,513	27,069
Total equity		<u>1,093,691</u>	<u>1,039,241</u>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

1. REPORTING ENTITY AND BACKGROUND INFORMATION

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

The interim financial report as at and for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the “**Group**”). The principal activities of the Group are the manufacture and sales of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online games business in August 2016, the Group’s activities also include developing, publishing and operating online games and provision of related services.

2. BASIS OF PREPARATION

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

The Company’s interim financial report has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”) and has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

This interim financial report contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3. CHANGE IN ACCOUNTING POLICIES

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

Details of the changes in accounting policies are discussed in note 3(b) for IFRS 9 and note 3(c) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and IFRS 15:

	At 31 December 2017 RMB'000	Impact on initial application of IFRS 9 (Note 3(b)) RMB'000	Impact on initial application of IFRS 15 (Note 3(c)) RMB'000	At 1 January 2018 RMB'000
Deferred tax assets	34,286	1,127	–	35,413
Total non-current assets	1,177,371	1,127	–	1,178,498
Trade and other receivables	529,726	(4,571)	–	525,155
Total current assets	1,478,085	(4,571)	–	1,473,514
Contract liabilities	–	–	(24,424)	(24,424)
Trade and other payables	(615,299)	–	24,424	(590,875)
Total current liabilities	(1,302,976)	–	–	(1,302,976)
Net current assets	175,109	(4,571)	–	170,538
Total assets less current liabilities	1,352,480	(3,444)	–	1,349,036
Contract liabilities	–	–	(873)	(873)
Deferred income	(49,760)	–	873	(48,887)
Total non-current liabilities	(313,239)	–	–	(313,239)
Net assets	1,039,241	(3,444)	–	1,035,797
Reserves	(936,714)	3,328	–	(933,386)
Total equity attributable to equity shareholders of the Company	(1,012,172)	3,328	–	(1,008,844)
Non- controlling interests	(27,069)	116	–	(26,953)
Total equity	(1,039,241)	3,444	–	(1,035,797)

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

Retained earnings

Recognition of additional expected credit losses on:

– trade and other receivables (4,417)

Related tax 1,089Net decrease in retained earnings at 1 January 2018 (3,328)**Non-controlling interests**

Recognition of additional expected credit losses on trade and other receivables

and decrease in non-controlling interests at 1 January 2018 (116)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and financial liabilities of the Group remain the same under IFRS 9.

The carrying amounts for all financial assets as at 1 January 2018 have not been impacted by the initial application of the new classification requirement under IFRS 9, but impacted by the initial application of the expected credit loss ("ECL") model under IFRS 9 (see note ii).

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

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, bank deposits with maturity over three months, restricted bank deposits, trade and other receivables and loans and receivables).

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

The following table shows the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	IAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	IFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Cash and cash equivalents	166,319	–	–	166,319
Bank deposits with maturity over three months	10,000	–	–	10,000
Restricted bank deposits	116,093	–	–	116,093
Trade and other receivables	529,726	–	(4,571)	525,155
Loans and receivables	3,037	–	–	3,037
	<u>825,175</u>	<u>–</u>	<u>(4,571)</u>	<u>820,604</u>
Financial assets carried at FVPL				
Derivative financial instruments	<u>1,765</u>	<u>–</u>	<u>–</u>	<u>1,765</u>

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB4,571,000, which decreased retained earnings by RMB3,328,000 and non-controlling interests by RMB116,000 and increased gross deferred tax assets by RMB1,127,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	<i>RMB'000</i>
Loss allowance at 31 December 2017 under IAS 39	462
Additional credit loss recognised at 1 January 2018:	
– trade and other receivables	<u>4,571</u>
Loss allowance at 1 January 2018 under IFRS 9	<u><u>5,033</u></u>

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of IFRS 15 does not have any material impact on the financial position and the financial result of the Group except for the presentation of contract assets and contract liabilities.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- B. 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;
- C. 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 IFRS 15 the entity recognises revenue for the sale of that good or service 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 is considered in determining when the transfer of control occurs.

Under IFRS 15, revenue from sales of goods continue to be recognised upon delivery to the customers. Revenue from publishing and operating online games is recognised upon the purchase of virtual currencies by the game players. Revenue from technical service is recognised upon the delivery of related service.

The adoption of IFRS 15 did not have a significant impact on timing of revenue recognition.

(ii) *Presentation of contract assets and liabilities*

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

“Advances received from customers” amounting to RMB24,424,000, which was previously included in trade and other payables is now included under “Contract Liabilities”.

“Deferred income – Others” amounting to RMB873,000 is now included under “Contract Liabilities”.

(d) *IFRIC 22, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

4. CHANGE IN ACCOUNTING ESTIMATES

After conducting a review on the useful lives of the fixed assets of the Group, in order to more accurately reflect the useful lives of the fixed assets and to ensure that the fixed assets and their related depreciation expenses more appropriately reflect the Group's actual usage conditions, the Group resolved to change the accounting estimates of the useful lives of certain copper processing equipment from 15 years to 10 years.

Since the massive investment on equipment expenditures from 2012, the Group has proactively devoted to increase its copper processing business capacity, i.e. from an annual output of 55,431 tons of 2012 to 129,633 tons of 2017.

To increase capacity and assure product quality, the Group has purchased state-of-the-art equipment and machinery, which have a high degree of automation. In addition, the cycle to upgrade the copper processing equipment has shortened due to key technical parameters is changing in a faster pace in the copper processing industry. Therefore, it is expected that the currently expected useful lives of the above fixed assets is different from the useful lives originally estimated for such class of equipment.

These changes in estimated useful lives of these assets were accounted for as changes in accounting estimates effective since 1 April 2018. The impact of these changes for the three months period ended 30 June 2018 was an increase in depreciation expense of RMB6.5 million.

5. REVENUE AND SEGMENT REPORTING

(a) Disaggregation of 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.

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
Copper products related:		
– Sales of high precision copper plates and strips	2,240,406	1,765,747
– Processing service fees	89,904	98,791
– Trading of raw materials	210,611	123,346
	<u>2,540,921</u>	<u>1,987,884</u>
Online games related:		
– Technical service income	149	5,380
– Publishing and operating online games	15,879	7,515
– Others	348	961
	<u>16,376</u>	<u>13,856</u>
	<u>2,557,297</u>	<u>2,001,740</u>
Disaggregated by geographical location of customers		
– Mainland China	2,044,930	1,672,124
– Hong Kong	157,822	69,530
– Singapore	114,952	96,398
– Taiwan	56,719	27,055
– Bangladesh	41,503	26,343
– Thailand	39,291	21,020
– India	36,087	41,290
– Other countries	65,993	47,980
	<u>2,557,297</u>	<u>2,001,740</u>

(b) Segment reporting

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

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

(i) Segment results, 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 basis:

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. Change in fair value of contingent consideration payables is not included in the measure of the segments' profit that is used by the senior executive management for assessment of segment performance.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below.

Six months ended 30 June	Copper products		Online games		Total	
	2018	2017	2018	2017	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
		(Note)		(Note)		(Note)
Revenue from external customers	2,540,921	1,987,884	16,376	13,856	2,557,297	2,001,740
Inter-segment revenue	—	265	—	—	—	265
Reportable segment revenue	<u>2,540,921</u>	<u>1,988,149</u>	<u>16,376</u>	<u>13,856</u>	<u>2,557,297</u>	<u>2,002,005</u>
Reportable segment profit (profit before taxation)	<u>64,371</u>	<u>76,024</u>	<u>(15,639)</u>	<u>4,413</u>	<u>48,732</u>	<u>80,437</u>
Interest income from bank deposits	1,600	334	196	26	1,796	360
Net interest expense	(17,934)	(18,702)	—	—	(17,934)	(18,702)
Depreciation and amortisation	(48,211)	(44,515)	(1,594)	(1,765)	(49,805)	(46,280)
Impairment of goodwill	—	—	(18,503)	—	(18,503)	—
As at 30 June / 31 December						
Reportable segment assets	<u>2,432,703</u>	<u>2,451,499</u>	<u>206,302</u>	<u>204,137</u>	<u>2,639,005</u>	<u>2,655,636</u>
Reportable segment liabilities	<u>(1,509,120)</u>	<u>(1,554,249)</u>	<u>(19,503)</u>	<u>(20,492)</u>	<u>(1,528,623)</u>	<u>(1,574,741)</u>

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 3).

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Reportable segment revenues	2,557,297	2,002,005
Elimination of inter-segment revenue	—	(265)
Consolidated revenue	<u>2,557,297</u>	<u>2,001,740</u>
Profit before taxation		
Reportable segment profit	48,732	80,437
Other gains or losses:		
– Change in fair value of contingent consideration payables	<u>7,522</u>	<u>15,457</u>
Consolidated profit before taxation	<u>56,254</u>	<u>95,894</u>

(iii) *Reconciliations of reportable segment assets and liabilities*

	At 30 June 2018	At 31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Assets		
Reportable segment assets	2,639,005	2,655,636
Elimination of inter-segment receivables	<u>(182)</u>	<u>(180)</u>
Consolidated total assets	<u>2,638,823</u>	<u>2,655,456</u>
Liabilities		
Reportable segment liabilities	1,528,623	1,574,741
Elimination of inter-segment payables	<u>(182)</u>	<u>(180)</u>
Unallocated corporate liabilities	<u>16,691</u>	<u>41,654</u>
Consolidated total liabilities	<u>1,545,132</u>	<u>1,616,215</u>

6. PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income on bank deposits	1,796	360
Change in fair value of contingent consideration payables	7,522	15,457
Unrealised gain from foreign exchange forward contracts	6,761	–
Net foreign exchange gain	<u>–</u>	<u>3,000</u>
Finance income	<u>16,079</u>	<u>18,817</u>
Interest expenses	(18,431)	(20,531)
Less: interest expense capitalised*	<u>497</u>	<u>1,829</u>
Net interest expense recognised in profit or loss	(17,934)	(18,702)
Net foreign exchange loss	(11,516)	–
Losses from foreign exchange forward contracts and interest rate swap	<u>–</u>	<u>(6,021)</u>
Finance costs	<u>(29,450)</u>	<u>(24,723)</u>
Net finance costs	<u>(13,371)</u>	<u>(5,906)</u>

* The borrowing costs were capitalised at rates of 2.15%-5.15% per annum during the six months ended 30 June 2018 (six months ended 30 June 2017: 1.28%-6.88% per annum).

(b) Other items

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(Note)
Cost of inventories*	2,359,025	1,765,870
Research and development expenditure (included in administrative expense)	46,097	74,834
Depreciation	48,078	44,373
Impairment losses		
– trade and other receivables	4,850	–
– goodwill	18,503	–
Amortisation		
– Lease prepayments	174	179
– Intangible assets	1,553	1,728
Government grants	4,245	6,332

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 3).

* Cost of inventories includes depreciation of RMB27,504,000 (six months ended 30 June 2017: RMB23,804,000), which is also included in the total amount of depreciation expenses disclosed separately below.

7. INCOME TAX

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
Provision for PRC Corporate Income Tax	10,571	15,793
Over-provision in respect of prior year	(8,965)	(86)
	1,606	15,707
Deferred tax		
Origination and reversal of temporary differences	6,010	4,614
	7,616	20,321

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

The Group's consolidated effective tax rate for the six months ended 30 June 2018 was 14% (six months ended 30 June 2017: 21%). The decrease in the effective tax rate was mainly due to the Group's two major subsidiaries received tax refund during the 2017 annual tax filling process in April and May 2018 in respect of the overpayment of 2017 income tax as they were entitled to 50% additional deduction for qualified research and development expenses in 2017.

8. 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 RMB47,730,000 (six months ended 30 June 2017: RMB74,470,000) and the weighted average of 852,974,217 ordinary shares (six months ended 30 June 2017: 826,025,589 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB47,730,000 (six months ended 30 June 2017: RMB74,470,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 855,216,934 ordinary shares (six months ended 30 June 2017: 826,141,611 ordinary shares).

9. GOODWILL

RMB'000

Cost:

At 1 January 2017 and 31 December 2017	138,153
Acquisition through business combination	<u>—</u>

At 30 June 2018	<u>138,513</u>
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Accumulated impairment losses:

At 1 January 2017 and 31 December 2017	—
Impairment losses	<u>18,503</u>

At 30 June 2018	<u>18,503</u>
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Net book value:

At 30 June 2018 (unaudited)	<u>119,650</u>
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At 31 December 2017 (audited)	<u>138,153</u>
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Impairment tests for cash-generating units containing goodwill

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

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Online games	119,650	138,153

As management identified there is an impairment indicator that the carrying value of goodwill may not be recovered from the future cash flows to be generated from the CGU, management performed goodwill impairment testing during the six months ended 30 June 2018.

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:

	Six months ended 30 June 2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Pre-tax discount rate	31.9%	31.5%
Long-term revenue growth rate	2.5%	2.5%
Revenue growth rates over next five years	3%-19%	5%-29%

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% (2017: 2.5%). 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 31.9% (2017: 31.5%). 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 was lower than its carrying amount, hence an impairment loss of approximately RMB18,503,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income for the six months period ended 30 June 2018 (2017: Nil).

10. INVENTORIES

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Raw materials	88,678	85,617
Work in progress	460,950	373,846
Finished goods	133,828	194,197
Others	522	522
	<u>683,978</u>	<u>654,182</u>

Provisions of RMB8,612,000 (2017: RMB6,269,000) were made against those inventories with net realisable value lower than their carrying value as at 30 June 2018. Except for the above, none of the inventories as at 30 June 2018 was carried at net realisable value (2017: Nil).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited) (Note)
Trade and bill receivables	445,702	469,711
Less: allowance for doubtful debts	<u>(9,883)</u>	<u>(462)</u>
	435,819	469,249
Deposits for metal future contracts	12,550	12,044
VAT recoverable	28,389	27,440
Prepayments	22,642	19,495
Others	<u>1,355</u>	<u>1,498</u>
	<u>500,755</u>	<u>529,726</u>

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 3).

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

As at 30 June 2018, 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 RMB7,237,000 (2017: RMB10,176,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivables and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

As at 30 June 2018, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 30 June 2018, 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 the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB5,242,000 (2017: RMB11,676,000).

(a) Ageing analysis

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

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited) (Note)
Within 3 months	391,765	444,176
Over 3 months but less than 6 months	36,181	24,981
Over 6 months but less than 1 year	7,849	7
Over 1 year	24	85
	435,819	469,249

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see note 3).

As at 30 June 2018, the Group's bill receivables with aggregate carrying value of approximately RMB161,963,000 (2017: RMB161,815,000) were pledged to banks for issuance of bank acceptance bills.

12. CONTRACT LIABILITIES

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited) (Note)
Included in current liabilities		
Licensing income amortised within one year	34	—
Advances received from customers	<u>25,832</u>	<u>—</u>
	<u>25,866</u>	<u>—</u>
Included in non-current liabilities		
Licensing income amortised over one year	<u>576</u>	<u>—</u>
	<u>26,442</u>	<u>—</u>

Note: As a result of the adoption of IFRS 15, advances received from customers included in trade and other payables and deferred income-others is included in contract liabilities (see note 3(c)).

13. TRADE AND OTHER PAYABLES

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited) (Note)
Trade and bills payable	642,807	500,492
Advances received from customers	—	24,424
Staff benefits payable	13,499	24,588
Payables for purchase of property, plant and equipment	30,292	34,484
Contingent share consideration payable	16,691	17,950
Accrued expenses and others	<u>10,784</u>	<u>13,361</u>
	<u>714,073</u>	<u>615,299</u>

Note: As a result of the adoption of IFRS 15, advances received from customers is included in contract liabilities (see note 3(c)).

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

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Within 3 months	622,421	457,527
Over 3 months but within 6 months	2,128	23,160
Over 6 months but within 1 year	16,531	16,854
Over 1 year	<u>1,727</u>	<u>2,951</u>
	<u>642,807</u>	<u>500,492</u>

14. INTEREST-BEARING BORROWINGS

At 30 June 2018, the interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follow:

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Current		
Short-term secured bank loans	422,163	469,893
Unsecured bank loans	110,744	112,413
Bank advances under discounted bills	<u>42,000</u>	<u>45,445</u>
	<u>574,907</u>	<u>627,751</u>
Non-current		
Secured bank loans	<u>161,000</u>	<u>231,000</u>
	<u>735,907</u>	<u>858,751</u>

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

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Within 1 year	—	—
Over 1 year but less than 2 years	161,000	171,000
Over 2 years but less than 5 years	—	60,000
	<u>161,000</u>	<u>231,000</u>
	<u>161,000</u>	<u>231,000</u>

- (ii) The Group's interest-bearing borrowings in the amount of RMB391,000,000 (2017: RMB420,500,000) 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 period ended 30 June 2018, none of the covenants relating to drawn down facilities were breached.
- (iii) The secured bank loans as at 30 June 2018 bore interest at rates ranging from 1% to 5.16% (2017: 2.15% to 7.5%) per annum and were pledged by the following assets:

	At 30 June 2018 <i>RMB'000</i> (unaudited)	At 31 December 2017 <i>RMB'000</i> (audited)
Carrying amounts of assets:		
Inventories	255,670	255,670
Property, plant and equipment	613,870	611,444
Lease prepayments	12,156	13,351
Guarantee deposits for bank borrowings	<u>81,572</u>	<u>58,818</u>
	<u>963,268</u>	<u>939,283</u>

- (iv) The unsecured bank loans as at 30 June 2018 bore interest at rates ranging from 3.35% to 3.41% (2017: 2.21% to 4.35%) per annum.

15. SHARE AWARD SCHEME

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

The Company 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 in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of the Company’s shares held by the Trustee at any given time under the Share Award Scheme will not exceed 20% of the total issued shares of the Company as of the Adoption Date of the Scheme.

As at 30 June 2018, the Trustee had purchased 8,688,000 shares (31 December 2017: 8,137,000 shares) of the Company at a total cost (including related transaction costs) of RMB6,525,000 (31 December 2017: RMB6,124,000).

According to the Resolution of the Administration Committee on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group which will vest within three years. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) is determined by reference to the closing price of the Company’s ordinary shares on 26 May 2017. 400,000 and 300,000 awarded shares were vested and transferred to the grantee during the six months period ended 30 June 2017 and 2018, respectively.

According to the Resolution of the Board 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 among which 2,900,000 awarded shares were transferred to the grantees during the six months period ended 30 June 2018.

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

	2018			2017		
	Average purchase price HK\$	No. of shares held	Value RMB'000	Average purchase price HK\$	No. of shares held	Value RMB'000
At 1 January	0.86	7,737,000	5,817	0.92	4,021,000	3,256
Shares purchased during the period/ year	1.00	551,000	401	0.80	4,116,000	2,868
Shares vested and transferred to employees during the period/year	–	(300,000)	(225)	–	(400,000)	(307)
Shares vested during the previous year and transferred to employees during the period/year	–	(2,900,000)	(2,180)	–	–	–
At 30 June/31 December	<u>0.84</u>	<u>5,088,000</u>	<u>3,813</u>	<u>0.86</u>	<u>7,737,000</u>	<u>5,817</u>

16. DIVIDENDS

During the six months period ended 30 June 2018, no dividend was declared or distributed and the Directors have determined that no dividend will be paid in respect of the interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL BUSINESS REVIEW

During the interim period of 2018, the Group's revenue amounted to RMB2,557.3 million, representing an increase of 27.8% over the corresponding period of last year, mainly due to the increase in sales volume of the copper plates and strips business and copper price. The Group's profit attributable to the shareholders decreased by 36.0% from RMB74.5 million in the first half of 2017 to RMB47.7 million, mainly due to the following facts: (1) a decrease in gross margin of copper processing business due to an increase in raw material costs. The import restriction on waste copper has caused the Group to reduce the proportion of waste copper during the production process, and thus increasing cost of sales; (2) an impairment loss on goodwill related to the acquisition of 100% interest in Funnytime Limited ("**Funnytime**") in August 2016 as disclosed in the announcement dated 21 June 2016. Such impairment loss is primarily attributable to the fact that Funnytime's financial performance is less than expected for the first six months of 2018 and it is likely that Funnytime will not meet the performance target of net profit of RMB30 million for year 2018. During the first six months of 2018, the revenue growth of the operation of web games is lower than forecasted, and net profit of Funnytime is also lower than the first six months ended 30 June 2017. Therefore, an impairment of goodwill of RMB18.5 million is recorded for the six months ended 30 June 2018; (3) a net loss on foreign exchange of RMB11.5 million due to the depreciation of RMB.

Online Game Business

Market and industry review

According to the "2018 January to June China Game Industry Report" (the "**Report**"), from January to June 2018, the actual sales revenue of the PRC's game market is RMB105.0 billion, up by 5.2% year-on-year, but the overall growth rate slowed down. The actual sales revenue of web game market is RMB7.3 billion, accounting for 6.9%, down 14.6% year-on-year, representing a further decrease in proportion of the total game market size. The reasons for the rapid decline in web game market are that web games are slow in iteration of products, and are characterized in homogeneity, and more players have switched to mobile games. According to the Report, from January to June 2018, the actual sales revenue of the mobile game market amounted to RMB63.4 billion, accounting for 60.4%, up by 12.9% year-on-year, representing a slowdown in growth.

As the competition in the domestic game market is becoming increasingly fierce, the introduction of differentiated products and enhancement of gameplay innovation, product diversification and independent operation of game products, etc. will become the major growth strategies for game companies.

Business review

Operation Center

In 2018, as the game industry grows rapidly, Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悦網絡科技有限公司) (“**Zhangyue**”), a subsidiary of the Group’s online game business, continued to maintain a sound development in its traditional web game business. Revenue from multiple game products including the Art of War and Three Kingdoms (《兵法三國》) was steady. Ambition of Three Kingdoms 2 (《三國之志2》), a new online web game, was widely promoted by Tencent after it was launched and received good feedbacks from players. In the second half of 2018, multiple products including Time Immemorial Legend (《太古傳奇》) are expected to be online, ensuring the continuous growth trend of web game. In addition, Zhangyue has been actively establishing the layout of H5 game business with multiple products including the Miraculous Three Kingdoms (《神奇三國》) and Scions of Fate H5 (《熱血江湖H5》) available online. In the second half of the year, Zhangyue will enhance its presence in the sector of H5 game, among which, Interesting Hospital (《萌趣醫院》), a WeChat Mini Game is expected to be launched on WeChat Mini Game platform in September 2018. The “mini game ecology” built by WeChat Mini Game platform taking advantage of WeChat social circle has been well recognized in the game industry. Both active user volume and game retention rate demonstrate the great advantages of WeChat Mini Game.

At the same time, in order to accumulate players and lay a solid foundation for the Company’s long-term development, Zhangyue launched the H5PK delivery platform and a game box for H5 games will be launched in the second half of the year to further promote the rapid growth of H5 business. However, in the first half of 2018, due to the impact of relevant state policies, the scheduling of some games was affected, and the launch time was delayed, resulting in lower revenue growth rate of the game operation business than forecasted, which caused impairment losses on goodwill related to the Group’s acquisition of Funnytime.

R&D Center

In the first half of 2018, Zhangyue adjusted its research and development (“**R&D**”) strategies, switching fully from traditional web game R&D to H5 game and mobile game R&D. Self-developed mythical heroes-themed H5 games and a mythical heroes-themed mobile game will be launched in 2018. Due to staff reorganization of the R&D center in the first half of 2018, the progress of some games in development was behind schedule.

Financial Performance

In the first half of 2018, Funnytime alone, the Group’s games business, realized a total revenue of RMB16.4 million, a net profit of RMB3.9 million, and an adjusted net profit (as defined in the Sale and Purchase Agreement) of RMB4.1 million, representing an increase of 18.0%, a decrease of 17.0%, and a decrease of 22.6% respectively, as compared with the same period of 2017. The decreasing in net profit is mainly due to the impairment losses for trade receivables of RMB3.6 million relating to the game developing business for third parties.

Outlook

As the game industry grows, Zhangyue is also going through active transformation to adapt to new industry trends, and actively deploys H5 games and mobile games from R&D to operation, so as to make breakthroughs and progress. In the first half of 2018, Zhangyue also entered into contracts with a number of IP products, covering animation, quadratic element, martial arts and other fields. Through the cooperation with these products, we hope to develop diversified product mix in the next one or two years and boast core, hit products, so as to make Zhangyue more competitive in the game industry.

Copper Processing Business

Market and industry review

In the first half of 2018, synchronous global economy recovery remained, but the momentum of expansion slowed down compared to 2017. The momentum of economy recovery in the Eurozone is less than expected due to the effect of extreme weather, strong Euro currency and many other factors. This is the main cause for the downturn of the global manufacturing industries. The U.S. economy has enjoyed a continued sound recovery. Considering the continued improved employment markets and expansionary fiscal stimulus plans in the United States (“U.S.”), the U.S. economy is expected to maintain a strong momentum in the second half of 2018. In the context of greater trade frictions between PRC and the United States, PRC’s economy is facing certain downturn pressure. However, PRC’s economy also showed its strong tenaciousness. It is expected that in the second half of 2018, PRC’s economy will continue to strengthen deleveraging. Meanwhile, PRC will implement active fiscal policy and sound monetary policy to ensure stable operation of its macro-economy.

In the first half of 2018, the global copper demands kept a relatively mild growth overall, mainly driven by PRC’s state grid orders and a year-on-year increase in the demands of air conditioners. However, grid orders and demands for air conditioners normally fluctuate significantly. Thus, in the second half of 2018, there is a relatively great uncertainty in copper demands. In addition, the trade wars initiated by the U.S. is hurting the market’s expectation of the copper demands for infrastructure construction in the U.S.. Whether such war would finally break out or not, the short-term expectation of the copper demand for infrastructure construction in the U.S. would decline.

During the reporting period, affected by the above factors, the copper price presented a momentum of a downturn from high price positions. In early June, the copper price at London Metal Exchange (“LME”) topped over US\$7,300/t. Afterwards, it kept declining. However, in the first half of 2018, the average copper price still increased by approximately 10% as compared to the corresponding period of 2017. We expect that in the second half of 2018, benefited from increased copper demands in PRC’s state grid industry and for the copper usage in new energy vehicles, the copper price will rise slightly while keeping steady after a period of fluctuations.

Business review

For the first half of 2018, the Group’s copper plates and strips realized an total output of 65,054 tons and total sales volume of 65,548 tons. In the first half of the year, sales revenue of the Group’s copper plates and strips business achieved RMB2,540.9 million, representing an increase of 27.8% as compared to that of the corresponding period of 2017, among which, revenue from the sale of copper products amounted to RMB2,240.4 million, revenue from provision of processing services amounted to RMB89.9 million and revenue of trading amounted to RMB210.6 million, representing an increase of 26.9%, a decrease of 9.0% and an increase of 70.7% as compared to the corresponding period of last year, respectively. In the first half of the year, the copper business realized an operating profit before taxation (profit before taxation excluding the change in fair value of the contingent consideration payable) of RMB64.4 million, which decreased by 15.3% as compared to that of the corresponding period of last year, mainly due to the effect of the restriction policies of Chinese Government on imports of “seven types of waste copper”. The proportion of waste copper used by the Company in the production process decreases, resulting in the increase in the raw material costs, which reduces the gross profit of copper processing business. In addition, there was a net foreign exchange loss of RMB11.5 million generated from copper processing business due to the depreciation of RMB.

Business development

2018 is a crucial year for the Group’s transformation and upgrade. The Group’s work guideline is to “adjust product structure, increase efficiency, reduce cost and seek for development”. Based on such work guideline, the Group carried out the following measures:

The Group is adjusting its product structure, and actively increasing the proportion of high value-added products and expanding market share for high value-added products, and thus enforces the Group’s competitiveness. As of 30 June 2018, the Group has increased the percentage of the high value-added products to approximately 25% from 22% at the beginning of the year.

The Group set up a special task team to keep improving the manufacturing processes, together with technological transformation, to improve the product quality and the yield rate of qualified products.

The Group implemented “Go Out” strategy, actively expanded raw material supply channels and established a stable supply system. In the context of restricted import of waste copper, the Group strived to purchase raw materials at relatively low price with good quality so as to achieve its goal of lowering production cost to the maximum extent.

The Group put more emphasis on its marketing functions, getting more close to the markets and its customers. The Group studied on the product development trends and understood the demands of the customers, focused on developing market-oriented and high value-added products, promoting an innovative environment so as to remain viable.

Outlook

In the second half of 2018, the Group will continue to follow the above work guideline to carry out its copper processing business to strive to realize transformation and upgrade as soon as possible.

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded total sales revenue of RMB2,557.3 million in the reporting period, which increased by 27.8% as compared with that of the corresponding period of last year. The increase in sales revenue of the Group's copper business was mainly due to an increase in sales volume of copper products and copper price.

The Group's copper business achieved a total revenue of RMB2,540.9 million for the six months ended 30 June 2018, representing an increase of 27.8% compared to RMB1,987.9 million of the corresponding period in 2017. Revenue generated from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials amounted to RMB2,240.4 million, RMB89.9 million and RMB210.6 million respectively (for the six months ended 30 June 2017: RMB1,765.7 million, RMB98.8 million and RMB123.4 million respectively). For the six months ended 30 June 2018, 88.2%, 3.5% and 8.3% of total revenue was derived from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials respectively (for the six months ended 30 June 2017: 88.8%, 5.0% and 6.2% respectively). The sales volume of high precision copper plates and strips, provision of processing services and trading of raw material were 47,701 tons, 17,847 tons and 5,761 tons respectively, making 66.9%, 25.0% and 8.1% of the total.

The Group's online gaming business achieved revenue of RMB16.4 million for the six months ended 30 June 2018, representing 0.6% of the total revenue (for the six months ended 30 June 2017: RMB13.9 million).

The overall gross margin of the Group's copper business for the period under review decreased to 7.2% from 11.2% of the corresponding period in 2017, which was mainly due to an increase in raw material costs.

Other income

During the six months ended 30 June 2018, the Group's other income amounted to RMB16.2 million in total, representing an increase of 60.4% compared to RMB10.1 million of the corresponding period of last year, which was mainly attributable to an increase of gain on metal future contracts of RMB9.5 million.

Other expenses

For the six months ended 30 June 2018, the Group recorded RMB23.4 million in other expenses, while recording other expenses of RMB0.4 million for the corresponding period of last year. Such increase was mainly due to the impairment loss on goodwill of RMB18.5 million related to the acquisition of 100% interest in Funnytime in August 2016.

Distribution expenses

For the six months ended 30 June 2018, the ratio of distribution expenses to revenue decreased to 0.93% as compared to 1.25% of the corresponding period of last year. This is mainly because the revenue increased, but distribution expenses kept steady.

Administrative expenses

For the six months ended 30 June 2018, the Group's administrative expenses decreased by 19.1% to RMB93.3 million from RMB115.3 million in the same period of last year, which was attributable to a decrease in research and development expenses by RMB28.7 million to RMB46.1 million from RMB74.8 million of the corresponding period of last year.

Net finance costs

The Group's net finance costs for the six months ended 30 June 2018 amounted to RMB13.4 million, representing an increase of RMB7.5 million compared to that of RMB5.9 million of the corresponding period of last year, which was mainly due to the net foreign exchange loss of RMB11.5 million for the six months ended 30 June 2018.

Income tax

For the six months ended 30 June 2018, the Group's income tax expenses was RMB7.6 million (corresponding period of last year: RMB20.3 million). The Group's consolidated effective tax rate for the six months ended 30 June 2018 was 14% (six months ended 30 June 2017: 21%). The decrease in the effective tax rate was mainly due to the Group's two major subsidiaries received tax refund during the 2017 annual tax filing process in April and May 2018 in respect of overpayment of 2017 income tax as they were entitled to 50% additional deduction for qualified research and development expenses in 2017.

Profit attributable to the shareholders of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2018 amounted to RMB47.7 million, representing a decrease of RMB26.8 million compared to that of RMB74.5 million of the corresponding period of last year. The decrease is mainly due to the impairment loss on goodwill of RMB18.5 million related to the acquisition of 100% interest in Funnytime in August 2016.

Liquidity financial resources and capital structure

As at 30 June 2018, the Group recorded net current assets of RMB188.2 million, which was primarily because the Group had less short-term bank borrowings.

As a percentage of total interest-bearing borrowings, the short-term interest-bearing borrowings represented 78.1% as at 30 June 2018. 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 of RMB684.0 million that will not expire within 12 months from 30 June 2018 (including long term loan facilities amounted to RMB77.6 million effective until 2020) and cash at banks of RMB330.6 million (comprised restricted bank deposits of RMB148.8 million, bank deposits with maturity over three months of RMB10.1 million and cash and cash equivalents of RMB171.7 million) respectively. Based on the previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over the existing short-term bank borrowings upon maturity in the coming year. The Board is confident that the Group has adequate financial resources to sustain its working capital requirement and meet its foreseeable debt repayment requirements.

As at 30 June 2018, the Group had outstanding bank loans and other borrowings of approximately RMB574.9 million, which shall be repaid within 1 year. As at 30 June 2018, 79.2% of the Group's debts was on secured basis.

The gearing ratio as at 30 June 2018 was 34.5% (31 December 2017: 40.6%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

Charge on assets

As at 30 June 2018, the Group pledged assets with an aggregate carrying value of approximately RMB963.3 million (31 December 2017: RMB939.3 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2018, the Group has invested approximately RMB30.4 million for purchase of property, plant and equipment. These capital expenditures were financed by bank borrowings.

Capital commitments

As at 30 June 2018, the Group had contracted but not provided for future capital expenditures amounting to RMB28.3 million.

Contingent liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

MARKET RISK

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

Price risk

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

The Group uses its copper futures contracts in Shanghai Futures Exchange and London Metal Exchange to hedge against fluctuations in copper price. The Group recorded a gain on futures contracts of approximately RMB11.0 million for the six months ended 30 June 2018, which was approximately RMB1.5 million in the corresponding period of last year.

Interest rate risk

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

Foreign exchange risk

The Group's export sales and certain part of the purchase of raw materials were denominated in foreign currencies, primarily U.S. dollars. Therefore, fluctuations in the exchange rate may have an impact on the Group's operating results. The Group has entered into foreign exchange forward contracts with local banks to hedge against foreign exchange rate risk. For the reporting period, the Group had recorded a net foreign exchange loss of RMB11.5 million while recording a net gain of RMB3.0 million for the corresponding period in 2017.

EMPLOYEES

As at 30 June 2018, the total number of the Group's employees was 1,282 (31 December 2017: 1,240). Remuneration policies are reviewed periodically to ensure that the Group is offering competitive employment packages to our employees. The employees' benefits include salaries, pensions, medical insurance scheme and other applicable social insurance. Promotion and salary increments are assessed in accordance with performance. The Group's business growth depends on its employees' skills and contributions. The Group believes in the important position of human resources in a highly competitive industry and has devoted resources for training its employees. Besides, share options may be granted and shares may be awarded to eligible employees of the Group respectively in accordance with the terms of share option scheme adopted by the Company and share award scheme adopted by the Board. The Group has established an annual training program for our new employees so that the new employees can master the basic skills required to perform their duties, and existing employees can enhance or upgrade their skills.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

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

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

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

The Board also adopted a share award scheme on 18 April 2016 (the “**Share Award Scheme**”). Details of the Share Award Scheme are set out in note 15 of the notes to the unaudited interim financial results in this announcement.

AUDIT COMMITTEE

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”). Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and deed of settlement of the Share Award Scheme, purchased on the Stock Exchange a total of 551,000 shares of the Company at an aggregate consideration of about RMB401,000.

INTERIM DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

PUBLICATION OF 2018 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the Company's website (www.huanyue.com.hk) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The Company's 2018 interim report will be made available on the websites of the Company and Hong Kong Exchanges and Clearing Limited and will be despatched to the Company's shareholders in due course.

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

Hong Kong, 28 August 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.