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 2019

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 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended 30 June	
	Note	**2019**	2018 (Note)
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*4*	**1,948,913**	2,557,297
Cost of sales		**(1,762,452)**	(2,363,505)
Gross profit		**186,461**	193,792
Other income		**20,930**	16,247
Distribution expenses		**(22,813)**	(23,685)
Administrative expenses		**(107,667)**	(93,306)
Other expenses		**(2,798)**	(23,423)
Profit from operations		**74,113**	69,625
Finance income		**6,910**	16,079
Finance costs		**(18,336)**	(29,450)
Net finance costs	*5(a)*	**(11,426)**	(13,371)

	Note	Six months ended 30 June	
		2019	2018
			(Note)
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Profit before taxation		**62,687**	56,254
Income tax	*6*	**(7,754)**	(7,616)
Profit for the period		**54,933**	48,638
Attributable to:			
Equity shareholders of the Company		**54,496**	47,730
Non-controlling interests		**437**	908
Profit for the period		**54,933**	48,638
Earnings per share			
– Basic *(RMB cents)*	*7(a)*	**6.39**	5.60
– Diluted *(RMB cents)*	*7(b)*	**6.39**	5.58

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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 2019

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**54,933**	48,638
Other comprehensive income for the period (after tax and reclassification adjustments):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**46**	(3,876)
Total comprehensive income for the period	**54,979**	44,762
Attributable to:		
Equity shareholders of the Company	**54,542**	43,854
Non-controlling interests	**437**	908
Total comprehensive income for the period	**54,979**	44,762

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	At 30 June 2019	At 31 December 2018 (Note)
		RMB'000 (unaudited)	*RMB'000* (audited)
Non-current assets			
Property, plant and equipment		**887,798**	917,315
Right-of-use assets	*3(c), 8*	**75,748**	–
Lease prepayments		**–**	11,991
Intangible assets		**1,574**	1,994
Goodwill		**28,289**	28,289
Deposits for acquisition of property, plant and equipment		**8,608**	9,778
Deferred tax assets		**26,774**	28,016
Other non-current assets		**7,490**	–
		1,036,281	997,383
Current assets			
Inventories	*9*	**640,857**	670,327
Trade and other receivables	*10*	**377,931**	392,167
Derivative financial instruments		**2,080**	876
Restricted bank deposits		**174,876**	140,162
Bank deposits with maturity over three months		**40,000**	10,163
Cash and cash equivalents		**185,353**	175,950
		1,421,097	1,389,645
Current liabilities			
Trade and other payables	*11*	**419,823**	467,301
Interest-bearing borrowings	*12*	**803,030**	728,523
Derivative financial instruments		**–**	222
Lease liabilities	*3(d)*	**1,069**	–
Income tax payable		**17,003**	21,926
		1,240,925	1,217,972
Net current assets		**180,172**	171,673
Total assets less current liabilities		**1,216,453**	1,169,056

	Note	At 30 June 2019	At 31 December 2018 (Note)
		RMB'000 (unaudited)	RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	*12*	**45,500**	45,500
Lease liabilities	*3(d)*	**1,166**	–
Deferred income		**40,680**	43,693
Deferred tax liabilities		**1,445**	5,499
		88,791	94,692
Net assets		**1,127,662**	1,074,364
Capital and reserves			
Share capital		**77,417**	77,417
Reserves		**1,029,133**	974,496
Total equity attributable to equity shareholders of the Company		**1,106,550**	1,051,913
Non-controlling interests		**21,112**	22,451
Total equity		**1,127,662**	1,074,364

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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 2019 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 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 annual financial statements. The unaudited condensed consolidated 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. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in note 8.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically computers or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of-use asset has been reduced to zero.

(iii) Lessor accounting

The Group leases out a number of items of machinery and property as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies.

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	RMB'000
Operating lease commitments at 31 December 2018	2,786
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(93)
– leases of low-value assets	(71)
	2,622
Less: total future interest expenses	(168)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	2,454
Total lease liabilities recognised at 1 January 2019	2,454

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018. In addition, the net carrying amount of lease prepayments was reclassified as right-of-use assets at the date of initial application of IFRS 16. Also, there were no ongoing payment obligations under the terms of the land lease, so no lease liabilities were recognised at the date of initial application of IFRS 16.

The Group presents right-of-use assets that do not meet the definition of investment property in 'right-of-use assets' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	**Reclassification**	**Capitalisation of operating lease contracts**	**Carrying amount at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Right-of-use assets	–	11,991	2,454	14,445
Lease prepayments	11,991	(11,991)	–	–
Total non-current assets	**997,383**	**–**	**2,454**	**999,837**
Lease liabilities (current)	–	–	892	892
Current liabilities	**1,217,972**	–	**892**	**1,218,864**
Net current assets	**171,673**	**–**	**(892)**	**170,781**
Total assets less current liabilities	**1,169,056**	**–**	**1,562**	**1,170,618**
Lease liabilities (non-current)	–	–	1,562	1,562
Total non-current liabilities	**94,692**	**–**	**1,562**	**96,254**
Net assets	**1,074,364**	**–**	**–**	**1,074,364**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019	At 1 January 2019
	RMB'000	*RMB'000*
Included in "Right-of-use assets":		
Leasehold land held for own use, carried at depreciated cost	**73,563**	11,991
Plant, machinery and equipment, carried at depreciated cost	**2,185**	2,454
	75,748	14,445

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	**Total minimum lease payments RMB'000**	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	**1,069**	**1,096**	892	915
After 1 year but within 2 years	**941**	**1,010**	894	960
After 2 years	**225**	**249**	668	747
	1,166	**1,259**	1,562	1,707
	2,235	**2,355**	2,454	2,622
Less: total future interest expenses		**(120)**		(168)
Present value of lease liabilities		**2,235**		2,454

(e) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in an immaterial impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the period.

In the statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A)	**Add back: IFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C)**	**Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)**	**Compared to amounts reported for 2018 under IAS 17**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**74,113**	**894**	**(903)**	**74,104**	**69,625**
Finance costs	(18,336)	58	–	(18,278)	(29,450)
Profit before taxation	**62,687**	**952**	**(903)**	**62,736**	**56,254**
Profit for the period	**54,933**	**952**	**(903)**	**54,982**	**48,638**
Reportable segment profit (profit before taxation) for the six months ended 30 June 2019 (note 4(b)) impacted by the adoption of IFRS 16:					
– Copper products	**51,878**	**453**	**(451)**	**51,880**	**64,371**
– Online games	**8,644**	**499**	**(452)**	**8,691**	**(15,639)**
– Total	**60,522**	**952**	**(903)**	**60,571**	**48,732**

	2019			2018
	Amounts reported under IFRS 16 (A)	**Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B)**	**Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)**	**Compared to amounts reported for 2018 under IAS 17**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Line items in the condensed consolidated statement of cash flows for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	37,566	(530)	37,036	161,419
Net cash generated from operating activities	**22,077**	**(530)**	**21,547**	**126,827**
Capital element of lease rentals paid	(472)	472	–	–
Interest element of lease rentals paid	(58)	58	–	–
Net cash generated from/(used in) financing activities	**77,434**	**530**	**77,964**	**(77,800)**

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table, these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

4. 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	
	2019	2018
	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	**1,819,703**	2,240,406
– Processing service fees	**90,827**	89,904
– Trading of raw materials	**22,445**	210,611
	1,932,975	2,540,921
Online games related:		
– Technical service income	**–**	149
– Publishing and operating online games	**15,476**	15,879
– Others	**462**	348
	15,938	16,376
	1,948,913	2,557,297
Disaggregated by geographical location of customers		
– Mainland China	**1,694,241**	2,044,930
– Taiwan	**51,890**	56,719
– Thailand	**50,211**	39,291
– Other locations	**152,571**	416,357
	1,948,913	2,557,297

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b).

(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 publishing and operating online games and providing technical 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 with the exception of unallocated corporate assets. 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 from cash balances and borrowings managed directly by segments, depreciation and amortisation and impairment losses. Change in fair value of contingent consideration receivables and contingent consideration payables are not included in the measure of the segments' profit that is used by the senior executive management for assessment of segment performance.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purpose of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 are set out below.

Six months ended 30 June	**Copper products** **2019**	2018 (Note)	**Online games** **2019**	2018 (Note)	**Total** **2019**	2018 (Note)
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Disaggregated by timing of revenue recognition						
Point in time	**1,932,975**	2,540,921	**–**	–	**1,932,975**	2,540,921
Overtime	**–**	–	**15,938**	16,376	**15,938**	16,376
Revenue from external customers	**1,932,975**	2,540,921	**15,938**	16,376	**1,948,913**	2,557,297
Reportable segment revenue	**1,932,975**	2,540,921	**15,938**	16,376	**1,948,913**	2,557,297
Reportable segment profit/(loss) (profit/(loss) before taxation)	**51,878**	64,371	**8,644**	(15,639)	**60,522**	48,732
Interest income from bank deposits	**3,272**	1,600	**356**	196	**3,628**	1,796
Net interest expense	**(17,577)**	(17,934)	**(53)**	–	**(17,630)**	(17,934)
Depreciation and amortisation	**(53,646)**	(48,211)	**(917)**	(1,594)	**(54,563)**	(49,805)
Impairment losses of goodwill	**–**	–	**–**	(18,503)	**–**	(18,503)
As at 30 June / 31 December						
Reportable segment assets	**2,320,903**	2,258,114	**106,205**	99,555	**2,427,108**	2,357,669
Reportable segment liabilities	**(1,304,696)**	(1,284,391)	**(22,775)**	(24,634)	**(1,327,471)**	(1,309,025)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Revenue		
Reportable segment revenues	**1,948,913**	2,557,297
Consolidated revenue	**1,948,913**	2,557,297
Profit before taxation		
Reportable segment profit	**60,522**	48,732
Other gains or losses:		
– Change in fair value of contingent consideration receivables and contingent consideration payables	**2,165**	7,522
Consolidated profit before taxation	**62,687**	56,254

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(iii) Reconciliations of reportable segment assets and liabilities

	At 30 June	At 31 December
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Assets		
Reportable segment assets	**2,427,108**	2,357,669
Elimination of inter-segment receivables	**(1,542)**	(189)
Unallocated corporate assets	**31,812**	29,548
Consolidated total assets	**2,457,378**	2,387,028
Liabilities		
Reportable segment liabilities	**1,327,471**	1,309,025
Elimination of inter-segment payables	**(1,542)**	(189)
Unallocated corporate liabilities	**3,787**	3,828
Consolidated total liabilities	**1,329,716**	1,312,664

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

5. PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Interest income on bank deposits	**3,628**	1,796
Change in fair values of contingent consideration receivables and contingent consideration payables	**2,165**	7,522
Gains from foreign exchange forward contracts	**–**	6,761
Net foreign exchange gain	**1,117**	–
Finance income	**6,910**	16,079
Interest expenses	**(18,582)**	(18,431)
Less: interest expense capitalised*	**952**	497
Net interest expense recognised in profit or loss	**(17,630)**	(17,934)
Net foreign exchange loss	**–**	(11,516)
Losses from foreign exchange forward contracts	**(706)**	–
Finance costs	**(18,336)**	(29,450)
Net finance costs	**(11,426)**	(13,371)

* The borrowing costs were capitalised at rates of 2.85%-4.99% per annum during the six months ended 30 June 2019 (six months ended 30 June 2018: 2.15%-5.15% per annum).

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(b) Other items

	Six months ended 30 June	
	2019	2018
		(Note)
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Cost of inventories*	**1,758,936**	2,359,025
Research and development expenditure (included in administrative expense)	**61,860**	46,097
Depreciation		
– Property, plant and equipment	**53,249**	48,078
– Right-of-use assets	**894**	–
Impairment losses on		
– trade and other receivables	**2,542**	4,850
– goodwill	**–**	18,503
Amortisation		
– Lease prepayments	**–**	174
– Intangible assets	**420**	1,553
Government grants	**9,261**	4,245

* Cost of inventories includes depreciation of RMB31,290,000 (six months ended 30 June 2018: RMB27,504,000), which is also included in the total amount of depreciation expenses disclosed separately below.

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

6. INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax		
Provision for PRC Corporate Income Tax	**15,464**	10,571
Over-provision in respect of prior year	**(8,847)**	(8,965)
	6,617	1,606
Deferred tax		
Origination and reversal of temporary differences	**1,137**	6,010
	7,754	7,616

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 2019 was 12% (six months ended 30 June 2018: 14%). The decrease in the effective tax rate was mainly due to the Group's two major subsidiaries received tax refunds of RMB8.4 million in May 2019 in respect of the overpayment of 2018 income tax as they enjoyed 75% additional deduction for qualified research and development expenses.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB54,496,000 (six months ended 30 June 2018: RMB47,730,000) and the weighted average number of 852,653,449 ordinary shares (six months ended 30 June 2018: 852,974,217 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

As at 30 June 2018, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB47,730,000 for the six months ended 30 June 2018 and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 855,216,934 ordinary shares.

As at 30 June 2019, potentially dilutive ordinary shares were excluded from the calculation of the diluted weighted-average number of ordinary shares, since the effect would have been anti-dilutive.

8. RIGHT-OF-USE ASSETS

As discussed in note 3, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 June 2019, the Group entered into a number of lease agreements for use of leasehold land and office building, and therefore recognised the additions to right-of-use assets of RMB62,197,000.

9. INVENTORIES

	At 30 June 2019 ***RMB'000*** **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Raw materials	**68,190**	117,894
Work in progress	**415,489**	412,895
Finished goods	**156,655**	139,016
Others	**523**	522
	640,857	670,327

Provisions of RMB4,768,000 (31 December 2018: RMB8,157,000) were made against those inventories with net realisable value lower than their carrying value as at 30 June 2019. Except for the above, none of the inventories as at 30 June 2019 was carried at net realisable value (2018: Nil).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Trade and bills receivable, net of loss allowance	**280,219**	296,387
Deposits for metal future contracts	**4,297**	11,080
Land deposits	**3,210**	–
Other debtors	**6,630**	5,748
Financial assets measured at amortised cost	**294,356**	313,215
VAT recoverable	**12,766**	24,386
Prepayments	**38,997**	25,018
Contingent consideration receivables	**31,812**	29,548
	377,931	392,167

As at 30 June 2019, 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 RMB20,445,000 (31 December 2018: RMB10,549,000). 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 2019, 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 2019, 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 RMB2,998,000 (31 December 2018: RMB23,216,000).

(a) Ageing analysis

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

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Within 3 months	**261,344**	278,726
After 3 months but within 6 months	**14,468**	16,641
After 6 months but within 1 year	**3,761**	959
After 1 year	**646**	61
	280,219	296,387

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 2019, the Group's bills receivable with aggregate carrying value of approximately RMB81,876,000 (31 December 2018: RMB96,304,000) were pledged to banks for issuance of bank acceptance bills.

11. TRADE AND OTHER PAYABLES

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Trade and bills payable	**334,572**	358,261
Staff benefits payable	**22,445**	28,668
Payables for purchase of property, plant and equipment	**28,597**	24,500
Accrued expenses and others	**14,611**	25,451
Financial liabilities measured at amortised cost	**400,225**	436,880
Contract liabilities	**15,811**	26,593
Contingent consideration payables	**3,787**	3,828
	419,823	467,301

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 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Within 3 months	**326,946**	351,057
After 3 months but within 6 months	**3,917**	3,461
After 6 months but within 1 year	**1,174**	1,301
After 1 year	**2,535**	2,442
	334,572	358,261

12. INTEREST-BEARING BORROWINGS

At 30 June 2019, the interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	At 30 June 2019 *RMB'000* **(unaudited)**	At 31 December 2018 *RMB'000* (audited)
Current		
Short-term secured bank loans	**430,148**	437,360
Unsecured bank loans	**51,917**	48,986
Bank advances under discounted bills	**243,965**	111,177
Current portion of non-current secured bank loans	**77,000**	131,000
	803,030	728,523
Non-current		
Secured bank loans	**45,500**	45,500
	848,530	774,023

(i) The Group's interest-bearing borrowings were repayable as follows:

	At 30 June 2019 RMB'000 (unaudited)	At 31 December 2018 RMB'000 (audited)
Within 1 year	**803,030**	728,523
After 1 year but within 2 years	**45,500**	45,500
	45,500	45,500
	848,530	744,023

(ii) The Group's interest-bearing borrowings in the amount of RMB398,000,000 (31 December 2018: RMB311,000,000) 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 period ended 30 June 2019, none of the covenants relating to drawn down facilities were breached.

(iii) The secured bank loans as at 30 June 2019 bore interest at rates ranging from 2.85% to 4.99% (31 December 2018: 2.81% to 4.99%) per annum and were pledged by the following assets:

	At 30 June 2019 RMB'000 (unaudited)	At 31 December 2018 RMB'000 (Note) (audited)
Carrying amounts of assets:		
Inventories	**310,000**	310,000
Property, plant and equipment	**491,127**	537,920
Right-of-use assets	**11,824**	–
Lease prepayments	**–**	11,991
Guarantee deposits for bank borrowings	**61,872**	61,778
	874,823	921,689

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(iv) The unsecured bank loans as at 30 June 2019 bore interest at rates ranging from 3.25% to 3.43% (31 December 2018: 3.59% to 3.65%) per annum.

13. 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 at the Adoption Date, i.e. 162,223,190 shares.

As at 30 June 2019, the Trustee had purchased 9,297,000 shares (31 December 2018: 8,688,000 shares) of the Company at a total cost (including related transaction costs) of RMB6,884,000 (31 December 2018: RMB6,525,000).

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 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 (tranche 1), 2,152,000 shares (tranche 2) and 2,628,000 shares (tranche 3) 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, and transferred to grantees during 2018.

According to the resolution of the Board of the Company on 13 December 2018, in order to maintain the employment service of the grantees with the Group for a longer term, the vesting of tranche 2 and tranche 3 awarded shares have been postponed for one year to 13 December 2019 and 13 December 2020, respectively. The modification was not beneficial to the grantees, therefore, there was no impact on the fair value cost of the awarded shares.

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

	2019			2018		
	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	**0.87**	**2,708,000**	**2,164**	0.86	7,737,000	5,817
Shares purchased during the period/ year	**0.68**	**609,000**	**359**	1.00	551,000	401
Shares vested and transferred to employees during the period/year	**–**	**–**	**–**	–	(300,000)	(225)
Shares vested during the previous year and transferred to employees during the period/year	**–**	**–**	**–**	–	(5,280,000)	(3,829)
At 30 June/31 December	**0.84**	**3,317,000**	**2,523**	0.87	2,708,000	2,164

14. DIVIDENDS

During the six months period ended 30 June 2019, 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

COPPER PROCESSING BUSINESS

Market and Industry Review

The global economic growth has a slowdown in 2019, and under the pressure of economic downturn, it is imperative for the world's major central banks, such as the Federal Reserve, to go back to quantitative easing policies. As the structural issues of the economy are still severe and there is a lack of new long-term growth drivers, only economic policies can stimulate the economy. In the first half of 2019, under the higher pressure of economic downturn, China has adopted reserve cut, tax reduction, acceleration of issuance of local special bonds, advance allocation of central budget investment, and other measures to promote production. It is expected that the downward pressure on the domestic economy will remain strong in the second half of the year, yet there would still be a greater stability, resilience and potential of economic growth.

After the meeting between China and the US in the G20 summit, trade talks were decided to restart and the current tension between the US and China has been slightly eased. However, there are still great uncertainties regarding the prospects for Sino-US negotiations. The macroeconomic situation is currently in a short-run equilibrium. The rise in copper prices driven by the news about Chinese and US leaders meeting will be difficult to sustain. Although the meeting between leaders of the US and China stimulated the market to rise, the price of copper fell back eventually. It is expected that the tension between China and the US may become a long-term focus throughout 2019. The current negotiation process still remain slow, and there will be a greater risk on the price of non-ferrous metals in the second half of the year due to the US-China relations. Going forward, Sino-US and European-US trade issues as well as Brexit will still be the key to determine the global economic landscape, and the macroeconomic risks will remain high.

In the first half of 2019, the copper price showed a trend of rising followed by a drop, with the main fluctuation ranging at USD5,700-6,600/ton. During mid-April, London Metal Exchange (LME) showed a highest copper price reaching USD6,608.5/ton, and then the copper price began to decline rapidly. The LME copper monthly and 3-month average settlement prices for the first half of 2019 were USD6,167/ton and USD6,175/ton respectively, down by 10.82% and 11.13%, respectively compared with the same period of last year.

Generally speaking, the low inventory level of copper market, copper concentrate, and tightened supply of scrap copper has provided fundamental support for the copper price, yet the copper price is still subject to the weak demand, the support for copper price is relatively limited. The trend of copper prices in the second half of the year will be greatly subject to the impacts on the performance of the macro-economy, trends of Sino-US trade and the US dollar.

Business Review

For the first half of 2019, the Group's copper plates and strips realized a total output of 58,753 tons and total sales volume of 58,238 tons. In the first half of the year, sales revenue of the Group's copper plates and strips business achieved RMB1,933.0 million, representing a decrease of 23.9% as compared to that of the corresponding period of 2018, among which, revenue from the sale of copper products amounted to RMB1,819.7 million, revenue from provision of processing services amounted to RMB90.8 million and revenue of trading amounted to RMB22.5 million, representing a decrease of 18.8%, an increase of 1.0% and a decrease of 89.3% 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 receivables and contingent consideration payables) of RMB51.9 million, which decreased by 19.4% as compared to that of the corresponding period of last year, mainly due to the decrease of sales volume of the copper plates and strips.

Business Development

In 2019, the Group embraced the working guidelines of "expansion and innovation, quality stabilisation and cost reduction, improvement and development", focusing on "expansion, stability, cost reduction, improvement and development" to conduct various work on the following aspects:

1. Expansion – conducting market expansion by focusing on application areas of products and renewable raw material purchasing. In the first half of the year, there were more than 20 new customers in our sales. The market expansion and development of renewable resources have been increased in the raw material purchasing, representing an increase of 12.6% as compared to that of the corresponding period of last year for renewable raw material purchasing. It significantly lowered the cost of purchasing. In the first half of the year, there were more than 10 new suppliers in our raw material purchasing, providing assurance for adequate raw material supply.

2. Stability – conducting work to maintain stability regarding product quality and staff in key positions. In the first half of the year, there were more than 20 projects going on, focusing on product quality improvement of different business units. During the reporting period, most of the projects have reached our expectation. In order to stabilize our talented personnel pool and improve the overall quality of our personnel, the Group conducted training for its management personnel at junior level in two phases and recruited more than 10 professional technicians in copper plates and strips, with an aim to guarantee the personnel reserve for future development.

3. Cost reduction – cost reduction across the board. The Group advocated cost reduction in full effort from all staff by adopting the policy of "special incentives for cost reduction and efficiency enhancement". The Group rewards for major breakthroughs in market expansion, new product development, cost reduction and efficiency enhancement. During the reporting period, the Group has effectively carried out various cost reduction projects internally, including energy saving and consumption reduction in workshops, purchasing of production accessories, purchasing and matching of raw materials, working capital management, sharing of IT consumables and optimization of administrative services, and achieved good enhancement.

4. Improvement – focusing on improvements in efficiency and management. The improvement in efficiency was mainly reflected in the development of direct factory customers, enhancement of customer communication, and maximization of waste utilization. During the reporting period, the Group held its first customer meeting for its copper processing business and invited more than 100 major customers to visit our factory and exchange ideas. By having such meeting, the Group is able to understand its own shortcomings in all aspects and understand the customer's needs for new application areas and new products as much as possible. Improvement in management was mainly reflected in aspects such as safety, environmental protection, occupational health, system, and remuneration performance. During the reporting period, safety production, environmental protection, training in occupational health education and fire drills were carried out more than 100 times, with more than 1,000 participants. In addition, the remuneration performance system was optimized to further improve the appraisal system with a main focus on floating assessment and supplemented by fixed assessment.

5. Development – focusing on new product pipeline, technical transformation and others. The Group proposed three "oriented" concepts for new product development, namely, market-oriented, research institute-oriented and industry-oriented. During the reporting period, various new alloy grades were developed, applied to areas including high speed trains, high-end connectors, electronic relays, vehicles and other high-end areas, among which some products have passed trials for customers and started mass distribution. The technical transformation focused on improving safe working environment, product quality, cost reduction and efficiency enhancement, and successfully completed projects such as workshop dust removal and noise reduction, electricity conversion to gas, and heat recycling.

Outlook

In 2019, the Group will march forward through innovation and pursuit of excellence, with restructuring its product mix and stable quality as the base, while striving to achieve management innovation as well as efficiency enhancement and cost reduction. The Group will center around "home" culture to embrace the working guidelines of "expansion and innovation, quality stabilisation and cost reduction, improvement and development", and strive to bring stable returns for our shareholders.

ONLINE GAMES BUSINESS

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 Dargon Limited and a domestic company Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悅網絡科技有限公司) ("**Zhangyue**") controlled through contractual agreements.

Funnytime achieved total revenue of RMB15.9 million and net profit of RMB10.0 million for the six months ended 30 June 2019, representing a decrease of 3.0% and an increase of 156.4% respectively over the same period of 2018. The increase of net profit is due to the following facts: (1) payables amount of RMB2.6 million to three suppliers were waived; and (2) Funnytime received more government grants by RMB1.7 million than the same period of last year.

According to the sale and purchase agreement (the "**SPA**"), Funnytime shall achieve performance target of net profit (after adjustments for pre-agreed items as stipulated in the SPA) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 (collectively as the "**Performance Undertaking Period**"), respectively, and the total anticipated net profit shall be RMB70,000,000. Funnytime's adjusted net profit has fulfilled its performance targets for year 2016 and 2017, but did not achieve the performance target for year 2018. The total adjusted net profit for the Performance Undertaking Period is RMB45,780,262, which is less than the total anticipated net income of RMB70,000,000 by RMB24,219,738. In April 2017 and April 2018, 19,996,667 and 24,445,556 consideration shares were allotted and issued to Mobilefun Limited (the "**Vendor**") respectively. In August 2016, February 2017 and March 2017, the Company paid HKD95,922,191.61, HKD16,740,000.00 and HKD1,860,000.00, a total amount of HKD114,522,191.61 (excluding the transaction costs) to the Vendor as cash consideration.

According to the SPA, the Vendor is subject to consideration adjustments, whereby the Vendor has to repay the Company cash in the amount of HKD40,135,567, and the remaining number of consideration shares issuable to the Vendor should be adjusted to 6,424,734 shares. The details of the consideration adjustments mechanism can be referred to in the announcement of the Company dated 21 June 2016. As at the date of this announcement, the Company and the Vendor are still discussing the settlement plans for the consideration adjustments. The current guarantors of the Vendor under the SPA are Mr. Ren Hao and Mr. Yang Jiong. Mr. Tong Xin was relieved in July 2018 from acting as one of the guarantors after his disposal of all his interest in the Vendor to Mr. Ren Hao. The Board is of the view that such change of guarantor would not have any material adverse impact to the Group as Mr. Ren Hao and Mr. Yang Jiong would continue to remain as guarantors to the Vendor. The Company has made announcements relating to the consideration adjustments on 29 March 2019, 15 April 2019 and 16 August 2019, and will issue further announcement(s) for any material development of the above as and where appropriate.

Market and Industry Review

According to the “2019 China’s Game Industry Trend Report” (the “**Report**”), the actual sales revenue and of the Chinese game market in 2019 is expected to exceed RMB230 billion, of which mobile games are a major component of market revenue and are the main driving force for growth at this stage. Although there are adjustments of relevant national policies, the actual sales revenue of Chinese mobile game market in 2019 is expected to exceed RMB150 billion. As a main component of the market, the growth of mobile game market also implies the gaming industry still has a steady growing trend. Once the policies adjustments are completed, the gaming market will continue to maintain its considerable growth for a long period of time. Due to the fact that an increasing number of players are shifting to mobile games, web game market is expected to decrease. After capitalized on user bonus, IP bonus and traffic bonus, the game market is looking for its next growth engine by exploring deeply on the needs of players’. In the future, with the continuous development of 5G technology, 5G cloud games is expected to become an emerging game segment.

Business Review

Operation Center

In 2019, although the game industry is impacted by relevant national policies, Zhangyue, a subsidiary of the Group’s online game business, continued to maintain a sound development in its traditional web game business. Revenue from Art of War and Three Kingdoms (《兵法三國》), Ambition of Three Kingdoms 2 (《三國之志2》) and other web game products maintained to be steady; in the first half of 2019, Zhangyue expanded its mobile game business, various mobile game projects distributed, such as Siege Three Kingdoms (《攻城三國》), recorded great results. The market for mini games flourished in 2019 with Tencent, Alibaba, ByteDance and other companies joining the market. In the second half of the year, Zhangyue will focus on maintaining the existing mini games as well as introducing and launching more products; at the same time, in order to cope with the change of the relevant policies for the industry and the wave of game globalization, Zhangyue will proactively develop overseas market. The first product has been launched in Southeast Asia in June 2019 and other 4 products launching overseas in the second half of the year. Moreover, we plan to launch our IP products in the second half of the year globally.

Research and Development Center

In the first half of 2019, Zhangyue combined its capacity in research and development with the latest market demand of the gaming industry to focus on mini games research and development. Self-developed mini game “Zhe Jiu Shi Xiu Xian A” (《這就是修仙啊》) was launched in the first half of the year. As a casual mini game, its performance has surpassed other products in the same category and received positive feedback from the market. Other mini games that are still in the development stage will be launched in the second half of the year. Besides, Zhangyue will attempt cross-industry collaboration and work with extensive entertainment content in the future to expand the path for Zhangyue self-developed products.

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded total sales revenue of RMB1,948.9 million in the reporting period, which decreased by 23.8% as compared with that of the corresponding period of last year. The decrease in sales revenue of the Group's copper business was mainly due to a decrease in sales volume of copper products and copper price.

The Group's copper business achieved a total revenue of RMB1,933.0 million for the six months ended 30 June 2019, representing a decrease of 23.9% compared to RMB2,540.9 million of the corresponding period in 2018. Revenue generated from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials amounted to RMB1,819.7 million, RMB90.8 million and RMB22.5 million respectively (for the six months ended 30 June 2018: RMB2,240.4 million, RMB89.9 million and RMB210.6 million respectively). For the six months ended 30 June 2019, 94.1%, 4.7% and 1.2% of total revenue was derived from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials respectively (for the six months ended 30 June 2018: 88.2%, 3.5% and 8.3% respectively). The sales volume of high precision copper plates and strips, provision of processing services and trading of raw material were 40,675 tons, 17,563 tons and 1,599 tons respectively, making 68.0%, 29.4% and 2.6% of the total.

The Group's online gaming business achieved revenue of RMB15.9 million for the six months ended 30 June 2019, representing 0.8% of the total revenue (for the six months ended 30 June 2018: RMB16.4 million).

The overall gross margin of the Group's copper business for the period under review increased to 9.0% from 7.2% of the corresponding period in 2018, which was mainly due to a decrease in raw material costs.

Other income

During the six months ended 30 June 2019, the Group's other income amounted to RMB20.9 million in total, representing an increase of 29.0% compared to RMB16.2 million of the corresponding period of last year, which was mainly because the Group had more government grants by RMB5.0 million as compared with the same period of last year.

Other expenses

For the six months ended 30 June 2019, the Group recorded RMB2.8 million in other expenses, while recording other expenses of RMB23.4 million for the corresponding period of last year. Such decrease was mainly due to the impairment loss on goodwill of RMB18.5 million in the corresponding period of last year related to the acquisition of 100% interest in Funnytime in August 2016.

Distribution expenses

For the six months ended 30 June 2019, the ratio of distribution expenses to revenue increased to 1.2% as compared to 0.93% of the corresponding period of last year. This is mainly because the revenue decreased, but distribution expenses kept steady.

Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses increased by 15.4% to RMB107.7 million from RMB93.3 million in the same period of last year, which was attributable to an increase in research and development expenses by RMB15.8 million to RMB61.9 million from RMB46.1 million of the corresponding period of last year.

Net finance costs

The Group's net finance costs for the six months ended 30 June 2019 amounted to RMB11.4 million, representing a decrease of RMB2.0 million compared to that of RMB13.4 million of the corresponding period of last year, which was mainly due to an increase in interest income on bank deposits by RMB1.8 million to RMB3.6 million from RMB1.8 million of the corresponding period of last year.

Income tax

For the six months ended 30 June 2019, the Group's income tax expenses was RMB7.8 million (six months ended 30 June 2018: RMB7.6 million). The Group's consolidated effective tax rate for the six months ended 30 June 2019 was 12% (six months ended 30 June 2018: 14%). The decrease in the effective tax rate was mainly due to the Group's two major subsidiaries received tax refunds of RMB8.4 million in May 2019 in respect of the overpayment of 2018 income tax as they enjoyed 75% additional deduction for qualified research and development expenses.

Profit attributable to the shareholders of the Company

The profit attributable to shareholders of the Company for the six months ended 30 June 2019 amounted to RMB54.5 million, representing an increase of RMB6.8 million compared to that of RMB47.7 million of the corresponding period of last year.

Liquidity financial resources and capital structure

As at 30 June 2019, the Group recorded net current assets of RMB180.2 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 94.6% as at 30 June 2019. 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 RMB998.8 million that will not expire within 12 months from 30 June 2019 (including long term loan facilities amounted to RMB219.6 million effective until 2021) and cash at banks of RMB400.2 million (comprised restricted bank deposits of RMB174.9 million, bank deposits with maturity over three months of RMB40.0 million and cash and cash equivalents of RMB185.3 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 2019, the Group had outstanding bank loans and other borrowings of approximately RMB803.0 million, which shall be repaid within 1 year. As at 30 June 2019, 65.1% of the Group's debts was on secured basis.

The gearing ratio as at 30 June 2019 was 37.6% (31 December 2018: 36.2%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and lease liabilities 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 2019, the Group pledged assets with an aggregate carrying value of approximately RMB874.8 million (31 December 2018: RMB921.7 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2019, the Group has invested approximately RMB76.8 million for purchase of property, plant and equipment and right-of-use assets. These capital expenditures were financed by bank borrowings.

Capital commitments

As at 30 June 2019, the Group had authorised but not contracted for and contracted but not provided for future capital expenditures amounting to RMB601.4 million and RMB15.5 million, respectively.

Contingent liabilities

As at 30 June 2019, 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 RMB11.2 million for the six months ended 30 June 2019, which was approximately RMB11.0 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 not entered into any foreign exchange contracts to hedge against foreign exchange rate risk as at 30 June 2019. For the reporting period, the Group had recorded a net foreign exchange gain of RMB1.1 million while recording a net loss of RMB11.5 million for the corresponding period in 2018.

EMPLOYEES

As at 30 June 2019, the total number of the Group's employees was 1,288 (31 December 2018: 1,290). 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 2018.

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 13 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 2019.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, 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 609,000 shares of the Company at an aggregate consideration of about RMB359,000.

INTERIM DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PUBLICATION OF 2019 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 2019 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, 30 August 2019

As at the date of this announcement, the executive directors of the Company are Mr. HU Changyuan, Mr. HU Minglie, Mr. ZHU Wenjun, Mr. REN Hao, 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.