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# ANNUAL REPORT

Feiyu Technology International Company Ltd.

**飛魚科技國際有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1022







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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. YAO Jianjun (*Chairman and Chief Executive Officer*)

Mr. CHEN Jianyu (*President*)

Mr. BI Lin (*Vice President*)

Mr. SUN Zhiyan (*Chief Technology Officer*)

Mr. LIN Jiabin (*Vice President*)

Mr. LIN Zhibin (*Vice President*)

### Independent Non-executive Directors

Ms. LIU Qianli

Mr. LAI Xiaoling

Mr. MA Suen Yee Andrew

## AUDIT COMMITTEE

Ms. LIU Qianli (*Chairwoman*)

Mr. LAI Xiaoling

Mr. MA Suen Yee Andrew

## REMUNERATION COMMITTEE

Ms. LIU Qianli (*Chairwoman*)

Mr. BI Lin

Mr. LAI Xiaoling

## NOMINATION COMMITTEE

Mr. YAO Jianjun (*Chairman*)

Ms. LIU Qianli

Mr. MA Suen Yee Andrew

## AUTHORIZED REPRESENTATIVES

Mr. BI Lin

Mr. CHEUNG Man Yu

## COMPANY SECRETARY

Mr. CHEUNG Man Yu

## LEGAL ADVISORS

*As to Hong Kong law:*

### Dentons Hong Kong

Suite 3201, Jardine House

1 Connaught Place

Central, Hong Kong

*As to Cayman Islands law:*

### Conyers Dill & Pearman (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## AUDITORS

### Ernst & Young

*Certified Public Accountants*

22nd Floor, CITIC Tower

1 Tim Mei Avenue Central

Hong Kong

## COMPLIANCE ADVISER

### Guotai Junan Capital Limited

27/F, Low Block, Grand Millennium Plaza,

181 Queen's Road Central,

Hong Kong

## CORPORATE INFORMATION

### REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### CORPORATE HEADQUARTERS

Floor 2, Block 2, No. 14 Wanghai Road  
Ruanjian Yuan Two, Siming District  
Xiamen, Fujian Province, PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 801 & 803, 8/F  
Beverley House  
93-107 Lockhart Road  
Wanchai, Hong Kong

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre, 183 Queen's Road East  
Wanchai, Hong Kong

### PRINCIPAL BANKERS

#### **The Industrial and Commercial Bank of China Xiamen Branch, Meihe sub-branch**

Unit 104, No. 587 Xiahe Road  
Xiamen, Fujian Province  
PRC

#### **China Merchants Bank, Beijing branch Jianwaidajie sub-branch**

No. 0668, Block 6, Jianwai SOHO  
No. 39 Dongsanhuan Zhonglu  
Chaoyang District  
Beijing, PRC

### INVESTOR RELATIONS

#### **Porda Havas International Finance Communications Group**

Units 2009-2018, 20/F, Shui On Centre,  
6-8 Harbour Road, Wanchai, Hong Kong

### COMPANY'S WEBSITE

[www.feiyuhk.com](http://www.feiyuhk.com)

### STOCK CODE ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

1022

### DATE OF LISTING

5 December 2014

# FINANCIAL HIGHLIGHTS

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Year Ended 31 December				
	2015 (RMB'000)	2014 (RMB'000)	2013 (RMB'000)	2012 (RMB'000)	2011 (RMB'000)
Revenue	<b>322,147</b>	339,071	145,037	158,729	33,011
Gross profit	<b>267,665</b>	296,778	138,338	153,791	32,725
Profit before tax	<b>99,730</b>	148,501	61,206	121,090	24,628
Profit after tax	<b>94,988</b>	142,368	50,957	121,090	24,628
Profit for the year attributable to owners of the parent	<b>65,882</b>	117,885	52,623	121,517	24,628
<b>Non-IFRSs Measures</b>					
– Adjusted net profit (unaudited) <sup>(1)</sup>	<b>199,680</b>	210,079	79,776	121,090	24,628
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>					
– Basic	<b>RMB0.04</b>	RMB0.11	RMB0.05	RMB0.12	RMB0.02
– Diluted	<b>RMB0.04</b>	RMB0.11	RMB0.05	RMB0.12	RMB0.02

Note:

- (1) We define adjusted net profit as net income or loss excluding share-based compensation, amortization of intangible assets recognized for acquisitions and listing fees in connection with the Global Offering completed in 2014. The term of adjusted net profit is not defined under IFRSs. The use of adjusted net profit has material limitations as an analytical tool as it does not include all items that would impact our net loss or income for the year or accounting period.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2015 (RMB'000)	2014 (RMB'000)	2013 (RMB'000)	2012 (RMB'000)	2011 (RMB'000)
<b>Assets</b>					
Non-current assets	<b>761,467</b>	480,666	492,767	13,189	1,766
Current assets	<b>564,323</b>	746,653	189,728	106,937	29,587
Total assets	<b>1,325,790</b>	1,227,319	682,495	120,126	31,353
<b>Equity and liability</b>					
Total equity	<b>1,070,443</b>	1,150,106	548,101	57,933	15,185
Non-current liabilities	<b>5,527</b>	9,603	11,057	482	1,816
Current liabilities	<b>249,820</b>	67,610	123,337	61,711	14,352
Total liabilities	<b>255,347</b>	77,213	134,394	62,193	16,168
Total equity and liabilities	<b>1,325,790</b>	1,227,319	682,495	120,126	31,353

## CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report of the Group for the year ended 31 December 2015.

In 2015, the Group achieved solid financial performance despite we postponed the launch of three major titles, namely Carrot Fantasy III (保衛蘿蔔3), Shen Xian Dao II (神仙道2) and Jiong Xi You II (囧西游2), to 2016 for further polishing. Revenue of the Group for the year ended 31 December 2015 was RMB322.1 million, compared to RMB339.1 million for the previous year. Adjusted net profit for the year ended 31 December 2015 was RMB199.7 million, compared to RMB210.1 million for the previous year.

China's online game industry still recorded an upsurge in 2015 with the continuous growth of smart phone population, among which there were some gamers who previously had not been PC client game players. However, the market competition remained intense in 2015 as players were fed with growing number of games. As a result, players prefer to choose the games with high quality and renowned intellectual property ("IP"), which provided the Group with both challenges and opportunities and proved that it was right to stick with our strategy of providing fantastic games with self-developed IP.

After listing on the Main Board of the Stock Exchange in December 2014, we made sufficient investments in establishing the following four teams in 2015 to support our corporate strategy:

- i. Chengdu Research & Development (R&D) center to further strengthen our R&D capabilities and enrich our mobile game portfolio;
- ii. Overseas publishing team to drive our international business growth through bringing Feiyu and other excellent Chinese games to global gamers;
- iii. Merchandise licensing operation team to foster an IP ecological system for promoting and operating our IP family across different channels and products; and
- iv. Investment team to identify and make strategic investments in quality companies which are expected to generate synergy with our current business.

In 2015, we successfully released the traditional Chinese version of San Guo Zhi Ren (三國之刃) in Taiwan in the first half of 2015 and its Korean version in late December 2015 respectively. We also launched three new mobile casual games titled Divas Hit the Road (花兒與少年), Plump Fish (小魚飛飛) and Battery Run (電池快跑) and a new mobile RPG game named Beauty Warriors (美人寶鑿, which previously had been titled as 美人無雙) this year. During the year under review, we also received broad industry recognition. One of our hit games, San Guo Zhi Ren (三國之刃) was awarded the "Top 10 Most Popular Mobile Games for 2015" (2015年度十大最受歡迎移動網路遊戲), and the newly launched mobile casual game titled Plump Fish (小魚飛飛) was awarded the "Top 10 Most Popular Single Player Mobile Games for 2015" (2015十大最受歡迎移動單機遊戲). In addition, Carrot Fantasy II (保衛蘿蔔2) received the award of "The Best Strategy Game" (最佳策略遊戲).

Taking advantage of our superior R&D capabilities and valuable IPs, we will continue to provide high quality games to global game players partnering with industry leaders to publish and distribute them going forward. We rescheduled the release of three of our games from the second half of 2015 to 2016 to further polish them. We believe the rescheduling would be worth for the Group even which may affect the short-term performance of the Group in 2016 as time invested in optimizing the new games would bring better game performance in the future. In addition to Carrot Fantasy III (保衛蘿蔔3), Shen Xian Dao II (神仙道2) and Jiong Xi You II (囧西游2), we plan to launch 3 other new mobile games in 2016.



## CHAIRMAN'S STATEMENT

Looking ahead, we will continue to penetrate into new overseas markets through introducing our existing and new games to overseas players and providing them with simple and interesting game-playing experience.

In 2016, we will make great efforts in licensing our self-developed IPs to third party companies for further development and monetization. We intend to be a pioneer of China-based online game companies who could bring game IP to a new level and as a result, generate long-term shareholder value.

The Board proposed a final dividend of HK3.0 cents per Share (equivalent to approximately RMB2.5 cents per Share) to be paid out of the share premium account of the Company for the year ended 31 December 2015, subject to approval by the Shareholders at the AGM (the year ended 31 December 2014: Nil). The proposed final dividend, if approved by the Shareholders at the AGM, will be paid on 6 June 2016 to the shareholders whose names appear on the register of members of the Company on 26 May 2016.

On behalf of the Board, I would like to thank our shareholders and stakeholders for their full and continued confidence and support. I also wish to extend my appreciation to our committed staff at every level and management team for their contributions in delivering the remarkable success of our Group.

**YAO Jianjun**

*Chairman*

Hong Kong, 24 March 2016



# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

The Shares of the Company were listed on the Main Board of the Stock Exchange on 5 December 2014. In 2015, we continued to have a stable growth in our mobile game business, which contributed 88.1% of total game operation revenue, compared with 83.4% in 2014. To further enhance our Research and Development (“R&D”) capability, we have successfully launched our Chengdu R&D center in 2015 following the abundant supply of online game R&D talents and sound online game environment in Chengdu. As a mobile game developer with self-developed intellectual property (“IP”), we have set up a merchandise licensing operation team focusing on managing the Company’s IPs through licensing them to top tier companies worldwide for their use on non-game products, which will include but not limited to books, toys, apparel, stationery, and accessories. In addition, we have established an overseas game publishing and operating team dedicated to exporting Chinese games to global market, in an effort to increase our exposure to international audience and drive the growth of our international business.

After the last few years’ booming development of China’s mobile game industry, players prefer to choose games with high quality and renowned IP, which provides the Company with both challenges and opportunities. Executing the Company’s consistent corporate strategy, we have always been differentiating ourselves through developing quality and innovative games, as how the Company has been known for in the online game industry, gamer community and the market. With our captivating and original IPs, we are well positioned to enjoy the advantage of IPs through extending existing titles from personal computers to smartphones, introducing sequels, and licensing for use on non-game products.

In 2015, we successfully released the traditional Chinese version of San Guo Zhi Ren (三國之刃) in Taiwan in the first half of 2015 and its Korean version in late December 2015, respectively. We also launched three new mobile casual games titled Divas Hit the Road (花兒與少年), Plump Fish (小魚飛飛) and Battery Run (電池快跑) and an associated company of the Group launched a new mobile RPG game named Beauty Warriors (美人寶鑒, which previously had been titled as 美人無雙) during 2015. In 2015, we also received broad industry recognition, including our company being awarded “China’s Top 10 Game Companies” (中國遊戲十強) for 2015, “China’s Top 10 Game Developers” (2015年度中國十大遊戲研發商) and “China’s Top 10 New Game Enterprises” (2015年度中國十大新銳遊戲企業). One of our hit games, San Guo Zhi Ren (三國之刃) received the award of “Top 10 Most Popular Mobile Games for 2015” (2015年度十大最受歡迎移動網路遊戲), and the newly launched mobile casual game titled Plump Fish (小魚飛飛) was awarded the “Top 10 Most Popular Single Player Mobile Games for 2015” (2015十大最受歡迎移動單機遊戲).

Considering the intense competitive landscape of online game market, we reemphasized our focus on developing games with superior quality and player-centric environment in 2015. As a reputable game developer, we now intend to spend more time on evaluating and choosing publishing and distribution partners based on their different user base, user traffic, marketing resources and capability so as to maximize the performance of our new games, which to some extent delayed the launch of three key new games, namely Carrot Fantasy III (保衛蘿蔔3) from late 2015 to the first half of 2016, as well as Shen Xian Dao II (神仙道2) and Jiong Xi You II (囧西游2) to the second half of 2016, respectively.

As a game development company, we develop games based on our self-created IPs, which could be incredibly valuable for the company. Taking full advantage of the great popularity and unique design of our games, we began to roll out cross-boundary activities based on our IPs in 2015 in an effort to seize the trend of cross-boundary integration in the pan-entertainment era. We licensed China Children’s Publishing House for publishing Carrot Fantasy (保衛蘿蔔) books based on the cute cartoon characters, interesting tower-defense scenarios and lovely background graphics of our Carrot Fantasy (保衛蘿蔔) game series. Thanks to the solid brand awareness of the games, the books received great popularity since their publication and were on the Jinghua Times bestseller list and ranked No.1 in the children’s list. In 2015, we also worked with NICI, the Germany-based globally-active producer of high-quality brand name goods, to design, produce and sell the plush toy of Carrot Fantasy (保衛蘿蔔). In addition, we licensed the IP of Carrot Fantasy (保衛蘿蔔) to Maped, a world leader in school and office supplies based in France, for its application on stationery. We are pioneering a way in China to originate IP from games and cultivate an IP ecosystem exporting our IP to third parties and extending its application from online games to consumer products, which is building a non-linear growth model for the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

On 25 June 2015, Feiyu Technology Hong Kong Limited (“Feiyu Hong Kong”), a direct wholly-owned subsidiary of the Company, and Fine Point Development Limited (“Fine Point”) entered into a share transfer agreement (the “Agreement”) pursuant to which Feiyu Hong Kong has conditionally agreed to purchase, and Fine Point has conditionally agreed to sell, 100% equity interest in Jiayi Global Limited (“Jiayi Global”) which indirectly held 25% of the registered capital of each of Xiamen Yidou and Xiamen Zhangxin (the “Acquisition”). The consideration of the Acquisition shall be satisfied by allotting and issuing a maximum of 118,000,000 consideration shares to Fine Point (or its nominee). The Acquisition was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 18 August 2015. Upon completion of the Acquisition on 26 August 2015, the Group indirectly holds 100% equity interests in both Xiamen Yidou and Xiamen Zhangxin. Please refer to the Company’s announcements dated 25 June 2015, 18 August 2015 and 26 August 2015 and the circular dated 27 July 2015 for details.

### Outlook for 2016

For existing games, we will continue to make great efforts to extend their life cycle and improve customer life time value through enhancing user experience and introducing more value-added features. At the same time, we will continue to penetrate into new overseas markets through our overseas game publishing team and top tier local game distribution platforms. In 2016, we are planning to release more language versions for each of San Guo Zhi Ren (三國之刃) and Beauty Warriors (美人寶鑿, which previously had been titled as 美人無雙) in selected Asian countries, as well as different language versions for Carrot Fantasy III (保衛蘿蔔3) globally. In order to further optimize our games and cooperate more closely with the publishers, we have rescheduled the release of our three key games, namely Carrot Fantasy III (保衛蘿蔔3) from late 2015 to the first half of 2016, and Shen Xian Dao II (神仙道2) and Jiong Xi You II (囧西游2) to the second half of 2016, respectively. We believe that the rescheduling would be worth for the Group even which may affect the short-term performance of the Group in 2016 as time invested in optimizing the new games would bring better game performance in the future.

In the first quarter of 2016, we entered into an exclusive license agreement with Tencent for distributing and publishing Plump Fish (小魚飛飛) in Mainland China on Tencent platforms for single-player games, including but not limited to Weixin and mobile QQ. In March 2016, we established the cooperation with Qihoo 360 to distribute and publish Shen Xian Dao II (神仙道2) in Mainland China. In addition, we successfully launched the Vietnamese version of San Guo Zhi Ren (三國之刃) in Vietnam in March 2016.

We will also continue to broaden our product portfolio by introducing new mobile games. Including the aforementioned three key games, we plan to launch six new games in 2016, which comprise five mobile RPG games and one mobile casual game.

As a game development company, the Group will continue to focus on developing, marketing and operating the Group’s mobile and web games globally. In order to reduce the investment risk of the Group in design, production and distribution of visual products such as cartoons, films, TV dramas and online dramas etc., the Group will roll out cross-boundary activities in the pan-entertainment era based on the Group’s IPs effectively through licensing arrangements. The licensing arrangements will not only bring royalties as a new source of revenue for the Group, but also assist in promoting and enhancing the value of the Group’s IPs.

The Board and management of the Company are confident about the Group’s development in 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Operating Information

##### *Our Games*

Given the growing prevalence of smartphones and other mobile devices, mobile game market has seen rapid growth in recent years. And as one of the few game development and operation companies based in the PRC that offer mobile and web games of both RPG and casual categories, we have shifted our focus from web games to mobile games to seize the significant opportunity for the mobile game market. We have also been committed to creating a player-centric game environment that offers users a superior game-playing experience in order to retain longer-term players.

The table below presents a breakdown of our revenue from game operation in absolute amounts and as a percentage of our total revenue for the years indicated:

	For the year ended 31 December			
	2015		2014	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
Game Operation				
Web games	36,008	11.2	52,659	15.5
Mobile games				
RPGs	245,061	76.1	215,444	63.5
Casual	21,209	6.6	48,789	14.4
Total	302,278	93.9	316,892	93.4

The contribution to total revenue of the Group from mobile games increased from approximately 77.9% for 2014 to approximately 82.7% for 2015, as a result of the Group's continuous focus on mobile games in 2015.

##### *Our Players*

As at 31 December 2015, (i) our RPG mobile games and web games, had approximately 205.5 million cumulative registered users, with approximately 165.6 million users for web games and approximately 39.9 million users for mobile games; and (ii) our casual games had approximately 300.4 million cumulative activated downloads. For the month of December 2015, (i) our RPG mobile games and web games had 1.5 million MAUs in aggregate, with approximately 0.9 million MAUs for mobile games and approximately 0.6 million MAUs for web games; and (ii) our casual games had approximately 10.6 million MAUs.

## MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth certain operational statistics relating to our business for the years indicated:

	For the year ended		Change %
	2015	2014	
<b>31 December</b>			
Average MPUs			
Web games (RPGs) (000's)	<b>32</b>	57	(43.9)
Mobile games (RPGs) (000's)	<b>208</b>	176	18.2
Casual (000's)	<b>388</b>	808	(52.0)
<b>ARPPU</b>			
Web games (RPGs) (RMB)	<b>92.7</b>	76.9	20.5
Mobile games (RPGs) (RMB)	<b>97.9</b>	102.2	(4.2)
Casual (RMB)	<b>4.6</b>	5.0	(8.0)

Note:

(1) Duplicated paying users of our games published on our own platforms were not eliminated during calculation.

Our average MPUs for mobile RPG games has increased from approximately 176,000 in 2014 to approximately 208,000 in 2015. This was mainly driven by (i) the launch of San Guo Zhi Ren (三國之刃) on Tencent platforms in the second half of 2014, which continued to be a smash hit in 2015 and (ii) the launch of the traditional Chinese version of San Guo Zhi Ren (三國之刃) titled Quan Min Kuai Da (全民快打) in Taiwan in the first half of 2015. Our average MPUs for mobile casual games decreased from approximately 808,000 for the year ended 31 December 2014 to approximately 388,000 for the year ended 31 December 2015, primarily due to the decrease in the number of average MPUs for Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2), which were launched in July 2012 and November 2013, respectively and began to step into the late stage of their expected life cycle in 2015. Our MPUs for web games decreased from approximately 57,000 for the year ended 31 December 2014 to approximately 32,000 for the year ended 31 December 2015 as our web games were in the late stage of their expected life cycle in 2015, and the decrease was also due to our focus shifted from web game to mobile game.

Our ARPPU of RPG mobile games decreased slightly from approximately RMB102.2 in 2014 to approximately RMB97.9 in 2015. The decrease was primarily due to the launch of San Guo Zhi Ren (三國之刃) on Tencent platforms in the second half of 2014, which offered a revenue sharing percentage lower than that of the games operated by ourselves in the first half of 2014. Our ARPPU of web games has increased from approximately RMB76.9 in 2014 to approximately RMB92.7 in 2015. The increase was primarily due to the increase in ARPPU of the web version of Shen Xian Dao (神仙道), a game in its mature stage when loyal players are willing to spend more. Our ARPPU for casual games decreased slightly from RMB5.0 in 2014 to RMB4.6 in 2015. The decrease was primarily due to the decline in ARPPU of our single-player games, Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2), which began to reach the late stage of their expected life cycle in 2015.

As part of our mobile game business strategy and to enhance the monetization of our mobile games, we shall continue to increase our efforts in promoting players' in-game purchases, rolling out upgrades frequently to enhance the features of our games and maintain users' interest, and launching various in-game promotions and activities. Our dedicated customer service team will continue to provide timely customer services via our in-game customer service system. We believe these measures will play a significant role in retaining our players and the expansion of our player base.

## MANAGEMENT DISCUSSION AND ANALYSIS

### The year ended 31 December 2015 compared to the year ended 31 December 2014

The following table sets forth the income statement of our Group for the year ended 31 December 2015 as compared to the year ended 31 December 2014.

	For the year ended 31 December		Change %
	2015 (RMB'000)	2014 (RMB'000)	
<b>Revenue</b>	<b>322,147</b>	339,071	(5.0)
Cost of sales	<b>(54,482)</b>	(42,293)	28.8
<b>Gross profit</b>	<b>267,665</b>	296,778	(9.8)
Other income and gains	<b>44,459</b>	6,273	608.7
Selling and distribution expenses	<b>(43,657)</b>	(35,278)	23.8
Administrative expenses	<b>(51,881)</b>	(60,717)	(14.6)
Research and development costs	<b>(114,820)</b>	(57,783)	98.7
Finance costs	<b>(523)</b>	–	N/A
Other expenses	<b>(214)</b>	(266)	(19.5)
Share of losses of associates	<b>(1,299)</b>	(506)	156.7
<b>PROFIT BEFORE TAX</b>	<b>99,730</b>	148,501	(32.8)
Income tax expense	<b>(4,742)</b>	(6,133)	(22.7)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>94,988</b>	142,368	(33.3)
<i>Attributable to:</i>			
Owners of the parent	<b>65,882</b>	117,885	(44.1)
Non-controlling interests	<b>29,106</b>	24,483	18.9

## MANAGEMENT DISCUSSION AND ANALYSIS

### Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2015 and 31 December 2014:

	For the year ended 31 December			
	2015	(% of Total Revenue)	2014	(% of Total Revenue)
	(RMB'000)		(RMB'000)	
Game Operation	<b>302,278</b>	<b>93.9</b>	316,892	93.4
Online game distribution	<b>1,442</b>	<b>0.4</b>	2,246	0.7
Licensing income	<b>5,156</b>	<b>1.6</b>	2,697	0.8
Advertising revenue	<b>12,873</b>	<b>4.0</b>	16,802	5.0
Technical service income	<b>398</b>	<b>0.1</b>	434	0.1
<b>Total</b>	<b>322,147</b>	<b>100.0</b>	339,071	100.0

Total revenue decreased by approximately 5.0% to approximately RMB322.1 million for the year ended 31 December 2015 from the year ended 31 December 2014. Revenue generated from game operation decreased slightly by approximately 4.6% to approximately RMB302.3 million for the year ended 31 December 2015 from the year ended 31 December 2014. The decrease was primarily due to Shen Xian Dao (神仙道) and Jiong Xi You (囧西游) reaching late stage of their life cycle for the year ended 31 December 2015. Revenue from online game distribution decreased by 35.8% to RMB1.4 million for the year ended 31 December 2015 from the year ended 31 December 2014. Such decrease was primarily due to the online games on 737 Platform reaching the late stage of their life cycle and our strategic focus on our self-developed games. Licensing income increased by approximately 91.2% to approximately RMB5.2 million for the year ended 31 December 2015 from the year ended 31 December 2014, primarily due to the new contract of Quan Min Kuai Da (全民快打) with licensing fee clauses entered in the first quarter of 2015 and the revenue derived from the sale of Carrot Fantasy (保衛蘿蔔) book series, which were published in late January 2015. Revenue from advertising decreased by approximately 23.4% to approximately RMB12.9 million for the year ended 31 December 2015 from the year ended 31 December 2014. The decrease was primarily due to Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2) reaching late stage of their expected life cycle with the number of active users declining.

### Cost of sales

Our cost of sales increased by approximately 28.8% from approximately RMB42.3 million for the year ended 31 December 2014 to approximately RMB54.5 million for the year ended 31 December 2015, primarily due to an increase in the cost related to the share options granted in November 2014 from approximately RMB1.1 million for the year ended 31 December 2014 to approximately RMB8.0 million for the year ended 31 December 2015 and an increase in salaries and welfare from approximately RMB16.7 million for the year ended 31 December 2014 to approximately RMB21.7 million for the year ended 31 December 2015, as a result of the increase in the number of operation employees and their salaries and welfare.

### Gross profit and gross profit margin

Based on the foregoing, our gross profit decreased by 9.8% from approximately RMB296.8 million for the year ended 31 December 2014 to approximately RMB267.7 million for the year ended 31 December 2015. Our gross profit margin for 2015 was 83.1%, as compared with 87.5% for 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Other income and gains

Our other income and gains increased by approximately 608.7% from approximately RMB6.3 million for the year ended 31 December 2014 to approximately RMB44.5 million for the year ended 31 December 2015, primarily due to the increase in interest income from approximately RMB0.3 million for the year ended 31 December 2014 to approximately RMB16.7 million for the year ended 31 December 2015 and an increase in investment income from approximately RMB2.0 million for the year ended 31 December 2014 to approximately RMB7.7 million for the year ended 31 December 2015. The increase in interest income and investment income was due to the rise in cash generated from the net proceeds received from the IPO which was completed in December 2014 and the cash generated from our game operation. Besides, the growth in other income and gains was also partly due to an increase in government grants from approximately RMB1.5 million for the year ended 31 December 2014 to approximately RMB11.7 million for the year ended 31 December 2015 and the recognition of gain on fair value change of contingent consideration amounted to RMB7.4 million in 2015. The government grants received in 2015 were granted by the local government of Xiamen to foster the development of the information technology sector, for tax reimbursement and as the reward of innovation etc., which prove the recognition of the Group by the local government. The gain on fair value change of contingent consideration represented the gain on fair value change of the remaining balance of 88,500,000 consideration shares regarding the Acquisition of 100% equity interest in Jiaxi Global which are expected to be allotted and issued in 2016, 2017 and 2018 as disclosed in the Company's circular dated 27 July 2015. On the completion date of the Acquisition (i.e., 26 August 2015), we recognized the remaining balance of the aforesaid consideration shares as a financial liability based on the closing price of our shares on that day, HKD1.97, and the estimated number of shares to be allotted and issued. However, the closing price of our share on 31 December 2015 was HKD1.87, which resulted in a decrease of the fair value of the financial liability we recognized and a gain on fair value change.

### Selling and distribution expenses

Our selling and distribution expenses increased by approximately 23.8% from approximately RMB35.3 million for the year ended 31 December 2014 to approximately RMB43.7 million for the year ended 31 December 2015, primarily due to the share-based payment of RMB20.3 million recognized in 2015 while there was no such expense in 2014. The share-based payment was related to the transfer of 13 million Shares of the Company from a major shareholder to a member of senior management who was responsible for the Group's operation, product marketing and promotion in respect of her contribution to the Group. The increase was also due to the cost related the share options and RSU granted in the second half of 2014, which increased from approximately RMB1.0 million for the year ended 31 December 2014 to approximately RMB4.4 million for the year ended 31 December 2015. The increase was partially offset by the decrease in App Store channel fees and advertising cost from approximately RMB14.9 million and RMB13.3 million for the year ended 31 December 2014 to approximately RMB4.7 million and RMB8.9 million for the year ended 31 December 2015, respectively. The decrease in App Store channel fees was mainly due to the launch of San Guo Zhi Ren (三國之刃) on Tencent platforms in the second half of 2014, since when the revenue generated by the game was recognized on a net basis and all the channel costs were borne by Tencent. The decline in advertising cost was primarily resulted from the decreased number of promotion activities of our mature games and the promotion cost of San Guo Zhi Ren (三國之刃) being borne by Tencent since its launch on Tencent platforms in the second half of 2014.

### Administrative expenses

Our administrative expenses decreased by approximately 14.6% from approximately RMB60.7 million for the year ended 31 December 2014 to approximately RMB51.9 million for the year ended 31 December 2015. The decrease was primarily attributable to the listing expense relating to the IPO of approximately RMB33.1 million incurred for the year ended 31 December 2014 while there were no such expenses incurred for the year ended 31 December 2015. The decrease was partially offset by an increase in cost related to share options and RSU granted in November 2014 from approximately RMB2.5 million for the year ended 31 December 2014 to approximately RMB12.2 million for the year ended 31 December 2015 and an increase in salaries, pension schemes contribution and welfare increased from approximately RMB12.8 million for the year ended 31 December 2014 to approximately RMB21.3 million for the year ended 31 December 2015, which was mainly attributable to the increased number of administrative employees to support our rapidly growing business and the increased number of employees for the entertainment section.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Research and development costs

Our research and development costs increased by approximately 98.7% from RMB57.8 million for the year ended 31 December 2014 to approximately RMB114.8 million for the year ended 31 December 2015. This increase was primarily due to an increase in the cost related to share options and RSU granted in November 2014 from approximately RMB9.5 million for the year ended 31 December 2014 to approximately RMB39.3 million for the year ended 31 December 2015. The increase was also due to an increase in salaries, pension schemes contribution and welfare from approximately RMB38.0 million for the year ended 31 December 2014 to approximately RMB60.3 million for the year ended 31 December 2015 as a result of the increased number of R&D employees to further enhance our R&D capabilities and enrich our game portfolio.

### Finance costs

Our finance costs of approximately RMB523,000 for the year ended 31 December 2015 represented the interest expenses of the time loan borrowed by the Company as a financial lever for the life insurance policies while there was no such expense for the year ended 31 December 2014.

### Other expenses

Our other expenses decreased by approximately 19.5% from approximately RMB266,000 for the year ended 31 December 2014 to RMB214,000 for the year ended 31 December 2015, primarily due to the loss of approximately of RMB156,000 on disposal of a subsidiary in 2014, while there was no such expense for the year ended 31 December 2015.

### Income tax expenses

Our income tax expense decreased by approximately 22.7% from approximately RMB6.1 million for the year ended 31 December 2014 to approximately RMB4.7 million for the year ended 31 December 2015. Our effective income tax rate increased from 4.1% for the year ended 31 December 2014 to 4.8% for the year ended 31 December 2015. The decrease of the income tax expenses was primarily attributable to the decrease of profit before tax from approximately RMB149 million for the year ended 31 December 2014 to approximately RMB100 million for the year ended 31 December 2015. On the other hand, the decrease was partially offset by the increase of the applicable income tax rate of certain PRC subsidiaries in 2015 due to the change of applicable preferential tax policy.

### Profit for the year

As a result of the foregoing, our profit for the year decreased by 33.3% from approximately RMB142.4 million for the year ended 31 December 2014 to approximately RMB95.0 million for the year ended 31 December 2015. And our profit attributable to owners of the parent decreased by 44.1% from approximately RMB117.9 million for the year ended 31 December 2014 to approximately RMB65.9 million for the year ended 31 December 2015.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Non-IFRSs measures – Adjusted net profit

In addition to our consolidated financial statements which are presented in accordance with IFRSs, we also provide further information based on the adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-IFRSs measures provide additional information to investors and others, helping them to understand and evaluate our consolidated results of operations in the same manner as our management and to compare financial results across accounting periods and with those of our peer companies.

We define adjusted net profit as net income or loss excluding share-based compensation, listing fees in connection with the IPO completed in 2014 and amortization of intangible assets recognized for acquisitions. The term of adjusted net profit attributable is not defined under IFRSs. The use of adjusted net profit has material limitations as an analytical tool as it does not include all items that would impact our net income or loss for the accounting period.

	For the year ended		Change %
	2015	2014	
	(RMB'000)	(RMB'000)	
<b>Profit for the year</b>	<b>94,988</b>	142,368	(33.3)
Add:			
Share-based compensation	<b>84,208</b>	14,168	494.4
Listing fees in connection with the IPO	–	33,058	N/A
Amortization of intangible assets recognized for acquisitions	<b>20,484</b>	20,485	–
<b>Total</b>	<b>199,680</b>	210,079	(5.0)

### FINANCIAL POSITION

As at 31 December 2015, total equity of the Group amounted to approximately RMB1,070.4 million, as compared to RMB1,150.1 million as of 31 December 2014. The decrease was mainly due to the distribution of an interim and a special dividend on 11 September 2015 amounted to RMB63.6 million, the dividends paid by our subsidiary in the first half of 2015 amounted to RMB28.3 million, and the equity impact regarding the Acquisition of 100% equity interest in Jiayi Global, as disclosed in the above section headed “Overview” of this annual report, amounted to RMB144.1 million. The decrease was partially offset by the net profit generated in 2015 and the increase in the equity-settled share-based payment expenses recognized in 2015.

The Group’s net current assets amounted to approximately RMB314.5 million as at 31 December 2015, as compared with approximately RMB679.0 million as at 31 December 2014. This decrease was primarily due to the increase in the other payables related to the fair value of the consideration shares which will be allotted and issued to the Seller in 2016, 2017 and 2018 pursuant to the Agreement regarding the acquisition of 100% equity interest in Jiayi Global amounted to RMB136.6 million recognized as a financial liability and the increase in non-current available-for-sale investments. The decrease was also attributable to the dividend paid in 2015 as described in the foregoing paragraphs. Also, the decrease was partially offset by the increase in cash generated from our operating activities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY AND CAPITAL RESOURCES

The table below sets forth selected cash flow data from our consolidated statement of cash flows:

	2015 (RMB'000)	2014 (RMB'000)	Change %
Net cash flows from operating activities	<b>228,392</b>	149,350	52.9
Net cash flows used in investing activities	<b>(248,412)</b>	(112,176)	121.4
Net cash flows (used in)/from financing activities	<b>(62,522)</b>	386,608	(116.2)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(82,542)</b>	423,782	(119.5)
Cash and cash equivalents at beginning of year	<b>545,511</b>	123,426	342.0
Effect of foreign exchange rate changes, net	<b>928</b>	(1,697)	(154.7)
Cash and cash equivalents at end of year	<b>463,897</b>	545,511	(15.0)

Our total cash and cash equivalent amounted to approximately RMB463.9 million as at 31 December 2015, as compared with approximately RMB545.5 million as at 31 December 2014. The decrease was primarily due to the utilization of our current financial resources for investments and the payment of dividends in 2015 which was partially offset by the cash generated from operating activities.

As at 31 December 2015, approximately RMB31.3 million of our financial resources (31 December 2014: RMB473.9 million) were held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and constant monitoring. The Group adopts a prudent cash and financial management policy. In order to better control costs and minimize cost of funds, the Group's treasury activities are centralized and cash is generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 31 December 2015, we had time loan of approximately US\$7.9 million (31 December 2014: Nil) with an interest rate of 1.6510% which was secured by certain life insurance policies as detailed below which was borrowed by the Company as a financial lever of the life insurance policies.

As at 31 December 2015, we had a short-term investment and available-for-sale investments of approximately RMB314.9 million (31 December 2014: RMB28.2 million). The short term investment represents a structured financial product issued by an asset management company with a fixed interest rate of 4.5% per annum and a maturity period of 90 days. The principal is protected. The current available-for-sale investment represents a structured financial product issued by another asset management company with an expected interest rate of 5.0% per annum and a maturity period of 191 days. The principal is not protected. The non-current available-for-sale investments represent the straight bonds, convertible bonds and convertible preferred shares issued by banks or reputable companies, with Standard & Poor ("S&P") rating above BB and coupon rates ranged from 4.5% to 6.875% per annum which were invested by the Company, and the investment in life insurance policies by the Company. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policy at any time and receive back based on the cash value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Cash Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Cash Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

## MANAGEMENT DISCUSSION AND ANALYSIS

The principal of the RMB20.0 million short term investment is protected while the principal of the rest available-for-sale investments are not protected. The fair value of the current available-for-sale financial investment approximately equals to their cost plus expected interest. The fair values of available-for-sale investments in straight bonds, convertible bonds and convertible preferred shares have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market inputs. The fair values of the life insurance policies represent the cash value of such insurance policies which is detailed in the above paragraph. According to our current internal investment management policies, no less than 60% of our total investment is invested in risk-free or principal protected investments while the remaining of up to 40% of the total investment is invested in low risk products. We have a diversified investment portfolio to mitigate risks. Besides, the above investments were made in line with our effective capital and investment management policies and strategies.

### Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 19.3% as at 31 December 2015 and 6.3% as at 31 December 2014.

### Capital expenditures

The following table sets forth our capital expenditures for the years ended 31 December 2015 and 31 December 2014:

	For the year ended		Change %
	2015	2014	
	(RMB'000)	(RMB'000)	
Property, plant and equipment	10,101	11,019	(8.3)
Intangible assets	2,019	1,713	17.9
<b>Total</b>	<b>12,120</b>	<b>12,732</b>	<b>(4.8)</b>

Our capital expenditures comprised property, plant and equipment, including company vehicles for employees' use, and intangible assets, such as software and platform. The total capital expenditures for the year ended 31 December 2015 were approximately RMB12.1 million, compared to approximately RMB12.7 million for the year ended 31 December 2014. The decrease was primarily due to a decrease of approximately RMB3.3 million in leasehold improvements for the offices leased in 2014. The decrease in total capital expenditures was partially offset by the increase in purchase of intangible assets, especially the purchase of a platform amounted to approximately RMB2.0 million and increase in purchase of property and equipment, including company vehicles for employees' use.

### Significant investments, acquisitions and disposals of subsidiaries, associates and joint ventures and future plans for material investments or capital assets

Save as the Acquisition of 100% equity interest in Jiayi Global as disclosed in the above section headed "Overview" of this annual report, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2015.

Save as disclosed in this annual report, there was no plan authorized by the Board for other material investments or additions of capital assets as at the date of this annual report. However, the Group will continue to identify new opportunities for business development.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Pledge of Assets

As at 31 December 2015, the bank loan of the Group amounted to US\$7.9 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value amounted to US\$12.8 million.

### Contingent liabilities and guarantees

As at 31 December 2015, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

### Use of Net Proceeds from Global Offering

The net proceeds from the Global Offering were approximately HK\$585.0 million, after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing. We have, and will continue to utilize the net proceeds from the Global Offering for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, we had 541 full-time employees, the majority of whom are based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2015:

	Number of Employees	% of Total
Development	346	64.0
Operations	111	20.5
Administration	70	12.9
Sales and marketing	14	2.6
Total	541	100.0

The remuneration of the Group's employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonus related to the Group's performance, allowances, equity-settled share-based payment and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customised training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension schemes on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board. In addition, the Group has adopted the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, Pre-IPO RSU Plan and Post-IPO RSU Plan as its long-term incentive schemes.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Foreign currency risk

In the year ended 31 December 2015, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

### Interest rate risk

Other than interest-bearing bank deposits and the short-term bank loan, the Group has no other significant interest-bearing assets or liabilities. The Directors do not anticipate any significant impact on the interest-bearing bank deposits resulting from changes in interest rates, because the interest rates of bank deposits are not expected to change significantly. And the Directors also do not anticipate any significant impact on the short-term bank loan resulting from changes in interest rates, because the bank loan was a financial lever of the life insurance policies. Therefore, the Group has not adopted any hedging policy to mitigate interest rate risk.

### Environmental Policies and Performance

Our Group has sought to operate in a responsible, transparent and sustainable way. We commit to protect the environment continuously by promoting green office practices such as double-sided printing and copying, setting up recycling bins, lighting with energy efficient LED lighting, growing plants in office and working to provide good air quality on the company premises. Our Group also improves employees' awareness of environmental protection and encourages them to bring their own plants for making the office green.

Our Group has adopted the 3Rs strategy in our waste management: Reduce, Reuse and Recycle, such as installing energy efficient hand dryers in the restrooms to reduce the consumption of paper towels.

Our Group is determined to review and improve its policies and practices of environmental protection from time to time to continuously contribute to making the earth a better planet.

### Compliance with the Relevant Laws and Regulations

To the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

### Event After the year ended 31 December 2015

There was no material subsequent event during the period from 1 January 2016 to the date of this annual report.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

The Directors during the year ended 31 December 2015 and up to the date of this annual report were:

### Executive Directors

Mr. YAO Jianjun (*Chairman and Chief Executive Officer*)

Mr. CHEN Jianyu (*President*)

Mr. BI Lin (*Vice President*)

Mr. SUN Zhiyan (*Chief Technology Officer*)

Mr. LIN Jiabin (*Vice President*)

Mr. LIN Zhibin (*Vice President*)

### Independent non-executive Directors

Ms. LIU Qianli

Mr. LAI Xiaoling

Mr. MA Suen Yee Andrew

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Board considers them to be independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

**YAO Jianjun (姚劍軍)**, aged 34, is a founder of the Group and a controlling shareholder (as defined in the Listing Rules) of the Company. He joined the Group on 12 January 2009 and was appointed as Chairman, executive Director and Chief Executive Officer of the Company on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as Chairman of Xiamen Guanghuan since 1 January 2011 and director of Xiamen Feiyu since 24 June 2014, director of Xiamen Zhangxin since 27 October 2014, director of Xiamen Yidou since 3 September 2014, director of Xiamen Feichang since 5 May 2015, director of Xiamen Xiyu since 27 May 2015, director of Xiamen Yufei Xingkong since 1 June 2015, director of Milin Feiyu since 10 July 2015, director of Xiamen Feiyu Wuxian since 24 July 2015 and director of Jiaxi Global since 20 August 2015.

Mr. Yao has more than 14 years of experience in the internet industry, including establishing and operating various websites and developing online games. He had founded a number of websites, including CNZZ.com (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), Chinaz.com (站長之家) (a website providing various technology and other services to PRC webmasters), Wo Ai Wo Wang (我愛我網), Yongchun Information Harbour (永春信息港) and Changan City Gaming Community (長安城遊戲社區) (a website operating martial arts multiple user domain games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China.

Mr. Yao is a founder of Xiamen Guanghuan. He has also been the executive director of Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技有限公司), an internet technology development and services company, since August 2013 and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of Chinaz.com (站長之家).

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Yao graduated from the Financial and Trading School of Wanzhou District of Chongqing City (重慶萬縣財政貿易學校) in July 2000 with a senior high school diploma.

**CHEN Jianyu (陳劍瑜)**, aged 33, joined the Group on 31 December 2013 and was appointed as executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen has also been the chief executive officer of Kailuo Tianxia since 3 May 2012 and director of Milin Feiyou since 1 July 2015, director of Beijing Feiyu Wuxian since 10 June 2015 and director of Beijing Feiyu Xingkong since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen has over 13 years of experience in the internet industry and has developed, or been responsible for developing, a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

Mr. Chen is one of the founders of Kailuo Tianxia and has served as its chief executive officer and the head of the research and development department since August 2013, primarily responsible for product development and overall management of Kailuo Tianxia. In July 2010, Mr. Chen co-founded Beijing Meitu Creative Advertisement Co., Ltd. (北京美圖創想廣告有限公司), a wholly-owned subsidiary of Xiamen Meituwang Technology Company Limited (廈門美圖網科技有限公司) and the developer of Meitu Viewer (美圖看看) (an image viewing software), and served as its general manager from inception to July 2013, primarily responsible for its overall management. From April 2008 to May 2010, Mr. Chen worked at Kulanuo Information Technology (Beijing) Co., Ltd. (庫拉諾信息技術(北京)有限公司), a social networking website and software product developing company, and served as the general manager of its internet browser project, IQ Browser (IQ瀏覽器). Prior to that, from July 2006 to March 2008, Mr. Chen served as the head of the design department of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including Flashget, a leading internet download managing software, primarily responsible for managing its product design department and user experience department. From May 2005 to June 2006, he was the head of the design department of Beijing Zhitong Wuxian Technology Co., Ltd (北京智通無限科技有限公司), a company developing and operating internet electronic magazine publishing platforms, including ZCOM electronic magazine software, primarily responsible for managing the software's product design department and user experience department.

Mr. Chen graduated from Beijing Institute of Fashion Technology (北京服裝學院) in July 2005 with a bachelor's degree in computer art design.

**BI Lin (畢林)**, aged 34, is a founder of the Group and one of the controlling shareholders of the Company. He joined the Group on 12 January 2009 and was appointed as executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Feiyu Hong Kong since 25 March 2014, director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Youli from 19 September 2011 to 24 February 2012, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangyu since 10 November 2014 and director of Xiamen Guangqu since 10 November 2014.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Bi has over 6 years of experience in the internet industry. Since March 2014, he has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會). He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin, one of our Founders and executive Directors, and Mr. Lin Zhibin, one of our Founders and vice presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development.

Mr. Bi graduated from Xiamen Yingcai School (廈門英才學校) in July 2000 with a senior high school diploma.

**SUN Zhiyan (孫志炎)**, aged 35, joined the Group on 31 December 2013 and was appointed as executive Director and Chief Technology Officer of the Company on 26 August 2014. He is in charge of technology development and support for the Group's games. Mr. Sun has also been the director of Milin Feiyou since 1 July 2015.

Mr. Sun has over 10 years of experience in the internet industry and has been responsible for the technology development and management of a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

Mr. Sun is one of the founders of Kailuo Tianxia and has served as its chief technology officer since May 2012, primarily responsible for technology development. From July 2010 to July 2013, Mr. Sun also served as the chief technology officer of Beijing Meitu Creative Advertisement Co., Ltd. (北京美圖創想廣告有限公司), a wholly-owned subsidiary of Xiamen Meituwang Technology Company Limited (廈門美圖網科技有限公司) and the developer of Meitu Viewer (美圖看看) (an image viewing software), primarily responsible for technology development. Prior to that, from April 2008 to May 2010, Mr. Sun worked at Kulanuo Information Technology (Beijing) Co., Ltd. (庫拉諾信息技術(北京)有限公司), a social networking website and software product developing company, and served as the head of the technology support in charge of its internet browser project, IQ Browser (IQ瀏覽器). From July 2006 to March 2008, Mr. Sun was a technology manager in charge of technology development in the technology department of Trend Media Corporation Limited (網際快車信息技術有限公司), a company developing internet download managing software, including Flashget, a leading internet download managing software. From May 2005 to June 2006, he worked as a technology manager in the technology department of Beijing Zhitong Wuxian Technology Co., Ltd (北京智通無限科技有限公司), a company developing and operating internet electronic magazine publishing platforms, including ZCOM electronic magazine software.



## DIRECTORS AND SENIOR MANAGEMENT

**LIN Jiabin (林加斌)**, aged 34, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin has also been the director of Xiamen Youli since 5 February 2012.

Mr. Lin has more than 10 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has been involved in its shareholder decision making processes since its inception in January 2009. He has also been the executive director of Xiamen Youli since February 2012, primarily responsible for game marketing and operations. Mr. Lin co-founded China Badminton Online (中羽在線網), a badminton sport internet portal in the PRC, in May 2003 with Mr. Lin Zhibin, Mr. Lin's brother who is also one of our Founders. Mr. Lin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, in April 2007 with Mr. Bi Lin, one of our Founders and executive Directors, and Mr. Lin Zhibin who served as an engineer in its technology department from April 2007 to January 2009. Prior to that, from December 2005 to November 2007, Mr. Lin served as a website designer in Xiamen Wanshang Shengshi Network Co., Ltd. (廈門萬商盛世網絡有限公司).

Mr. Lin graduated from Xiamen University (廈門大學) in July 2005, majoring in electronic commerce.

Mr. Lin Jiabin is the brother of Mr. Lin Zhibin, an executive Director.

**LIN Zhibin (林志斌)**, aged 34, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

Mr. Lin has more than 10 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has served as its chief designer since its inception in January 2009. Mr. Lin co-founded China Badminton Online (中羽在線網), a badminton internet portal in the PRC, in May 2003 with Mr. Lin Jiabin, Mr. Lin's brother and one of our Founders and executive Directors. Mr. Lin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, in April 2007 with Mr. Bi Lin, one of our founders and executive Directors, and Mr. Lin Jiabin and served as its chief designer from its inception to January 2009, primarily responsible for product design, research and development. Prior to that, from July 2005 to December 2006, Mr. Lin served as website designer of Xiamen Advantage Interactive Network Technology Company Limited (廈門優勢互動網絡科技有限公司) (formerly known as Xiamen Youwang Technology Company Limited (廈門優網科技有限公司)), a website designing company.

Mr. Lin graduated from Xiamen University (廈門大學) in July 2005, majoring in electronic commerce.

Mr. Lin Zhibin is the brother of Mr. Lin Jiabin, an executive Director.

## DIRECTORS AND SENIOR MANAGEMENT

### Independent Non-executive Directors

**LIU Qianli (劉千里)**, aged 40, was appointed as an independent non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 11 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the main board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of ChinaEDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of MainOne Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

Ms. Liu received her MBA degree from MIT Sloan School of Management in June 2003 and her bachelor of arts degree from Dartmouth College in June 1997.

**LAI Xiaoling (賴曉凌)**, aged 40, was appointed as an independent non-executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 11 years of experience in investment and business management. He has been a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, since June 2013. He was primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management.

Mr. Lai received his MBA degree from Chinese University of Hong Kong in December 2007 and a bachelor of engineering degree in engineering physics from Tsinghua University (清華大學) in July 1999.

**MA Suen Yee Andrew (馬宣義)**, aged 43, was appointed as an independent non-executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Nomination Committee.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Ma has over 16 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

Mr. Ma received a master of science degree in investment management from the Hong Kong University of Science and Technology in November 2007 and a bachelor of science degree in mathematics from University of Technology, Sydney in May 1999.

### Biographical Details of the Senior Management

The senior management is responsible for day-to-day management of the Group's business.

**CHEUNG Man Yu (張文宇)**, aged 41, joined the Group on 8 February 2014 and was appointed as Chief Financial Officer on 26 August 2014, and is responsible for the Group's overall financial reporting and management.

Mr. Cheung has over 16 years of experience in financial reporting, management and services. Since December 2012, he has been an independent non-executive director and a member of the audit committee of China LESSO Group Holdings Limited (中國聯塑集團控股有限公司), a manufacturer of plastic pipes and pipe fittings listed on the main board of the Stock Exchange (Stock Code: 2128). He has also served as the vice general manager of ZTE Urban Digital Culture Media (Beijing) Co., Ltd. (中興都市數字文化傳媒(北京)有限責任公司), a media company, since December 2012, primarily focusing on its financial and internal control matters. From February 2011 to November 2012, Mr. Cheung was the vice president of China Forestry Holdings Co., Ltd. (中國森林控股有限公司), a forestry resource management and timber log processor operating in the PRC and listed on the main board of the Stock Exchange (Stock Code: 930), primarily focusing on its financial and internal control matters. Prior to that, from April 2004 to March 2011, Mr. Cheung worked as a vice president or director at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan Securities (Asia Pacific) Limited. Mr. Cheung worked as a manager at the audit department of Ernst & Young, an international accounting firm, from February 2000 to April 2004.

Mr. Cheung graduated from the Hong Kong Polytechnic University in November 1997 with a bachelor of arts degree in accountancy and is a member of Hong Kong Institute of Certified Public Accountants.

## DIRECTORS AND SENIOR MANAGEMENT

**XU Yiqing (許藝清)**, aged 38, joined our Group on 10 December 2014, and was appointed as our vice president on the same day. She is responsible for human resources development and administrative and organisational management.

Ms. Xu has over 10 years of corporate management experience in the internet industry and information technology industry. From January 2011 to December 2014, Ms. Xu worked at Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網絡技術有限公司), a company which develops and operates online games. She served as the vice general manager and was responsible for human resources, administrative management and strategic planning. From March 2007 to December 2010, Ms. Xu worked at Gillion New Software Co., Ltd. (吉聯新軟件股份有限公司), an information technology and logistics information technology services company, and served as the general manager of its integrated management department. She was responsible for the company's human resources, administrative management and strategic planning. From December 2005 to March 2007, Ms. Xu worked at Xiamen Longtop System Co., Ltd. (廈門東南融通系統工程有限公司), a company specialising in providing software support and services to financial institutions. She served as the supervisor of the human resources department and was responsible for recruitment and training. From August 1997 to December 2005, Ms. Xu worked at Top (Xiamen) Computer System Co., Ltd. (鼎盛(廈門)電腦系統有限公司), a company specialising in providing software support and services to financial institutions. She was the manager of its human resources and administration department and was responsible for personnel and administrative management.

Ms. Xu graduated from the Faculty of Computer Science of Xiamen Zhongxin International Computer Institute (廈門中新國際電腦學院) in July 1996.

**DONG Ting (董挺)**, aged 33, joined our Group on 28 February 2012 and was appointed as our vice president on 3 January 2015. He is responsible for the overall management of production planning, design and development of our Group's RPG games. Mr. Dong has also been appointed as the director of 8384 Limited, an indirect wholly-owned subsidiary of the Company, since 28 May 2015 and the director of Xiamen 8384 Information Technology Co., Ltd., an indirect wholly-owned subsidiary of the Company, since 9 June 2015.

Mr. Dong has over 9 years of experience in online game development and the internet information technology industry. From May 2010 to February 2012, Mr. Dong worked at 4399 Network Co., Limited (廈門四三九九網絡股份有限公司), a company developing and operating online games, and served as the manager of the open platform department and game development department, responsible for open platform development and web game development. From December 2005 to May 2010, Mr. Dong worked at Tencent Holdings Limited (騰訊控股有限公司), a supplier of integrated internet services, as an engineer and was involved in projects such as QQVideo, Qiye QQ (企業QQ) and QQ Meishi (QQ美食).

Mr. Dong graduated from the Huazhong University of Science and Technology (華中科技大學) in July 2005 and received a computer science bachelor degree.

**LIU Tao (劉濤)**, aged 35, joined our Group on 31 December 2013 and was appointed as our vice president on 3 January 2015. He is responsible for the overall management of production planning, design and development of our Group's casual mobile games.

Mr. Liu has over 8 years of experience in product planning and creative design in the internet industry. Since May 2012, Mr. Liu has been the game producer of Kailuo Tianxia (凱羅天下), primarily responsible for product research and development of Carrot Fantasy Series (保衛蘿蔔系列). From April 2008 to January 2010, Mr. Liu worked at KGIM (庫拉諾資訊技術(北京)有限公司), a social network and software development company, and served as the production manager of its internet community projects. Before that, from July 2006 to March 2008, Mr. Liu worked at Wangyou Tianxia Technology Company Limited (網友天下科技有限公司), an internet community company which shares and publishes original videos, songs and literary work of registered users. During such time, he served as the branding manager and was primarily responsible for creative planning and brand operations of community products.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu graduated from the High School attached to Hebei University (河北大學附屬中學) in June 2000 and received a secondary certificate specialising in international tourism.

**Yang Guangwen (楊光文)**, aged 34, joined our Group on 27 April 2015 and was appointed as our vice president on 28 April 2015. He is responsible for setting up our Chengdu R&D centre and is responsible for the overall management of production planning, design and development of the games of the Chengdu subsidiaries.

Mr. Yang has over 10 years of experience in business administration and the internet industry. From April 2014 to April 2015, Mr. Yang worked at Zhuhai Qianyou Technology Company Limited (珠海仟遊科技有限公司), a company which develops online games. He served as the Chief Operating Officer and was responsible for the operation of the mobile games and client based games. From October 2013 to March 2014, Mr. Yang served as vice general manager of Xiamen Qingci Shuma Technology Company Limited (廈門青瓷數碼技術有限公司), a company which develops and operates online games and was responsible for the operation of mobile games and development of client-based games. From July 2010 to September 2013, Mr. Yang served as vice general manager of Xiamen Jizhi Hudong Online Technology Company Limited (廈門極致互動網絡技術有限公司), a company which develops and operates online games and was responsible for the marketing and operating of web games and client based games. In June 2007, Mr. Yang co-founded Sichuan Huanyou Internet Technology Company Limited (四川環遊網絡科技有限公司), a company which develops Internet-based interactive entertainment products and application softwares and served as general manager from inception to April 2010, primarily responsible for the overall management. Prior to that, Mr. Yang also served as vice general manager of Sichuan 8760 Internet Technology Company Limited (四川八七六零網絡科技有限責任公司), a company which develops and operates online games, primarily responsible for the development and operation of E-commerce website and the operation of client based games from July 2002 to May 2007.

Mr. Yang graduated from Southwest Jiaotong University (西南交通大學) in June 2002, majoring in computer applications.

# REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activity of the Group is the development and operation of mobile games and web games, with a strategic focus on mobile games. The activities of its principal subsidiaries are set out in Note 1 to the financial statements.

Details of the activities during the year ended 31 December 2015 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section headed "Management Discussion and Analysis" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2015, if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this annual report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2015, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 66 to 132 of this annual report.

## FINANCIAL SUMMARY

A summary of the results, and assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

## USE OF PROCEEDS FROM THE COMPANY'S IPO

The net proceeds from the IPO were approximately HK\$585.0 million, after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the IPO/Listing. We have, and will continue to utilise the net proceeds from the Company's IPO for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

## RESERVES

Changes to the reserves of the Group during the year ended 31 December 2015 are set out in the Consolidated Statements of Changes in Equity on page 71 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2015 are set out in Note 36 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB475,940,000 (as at 31 December 2014: RMB469,400,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

## PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2015 are set out in Note 13 to the financial statements.

## SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are respectively set out in Notes 25 and 26 to the financial statements and the sections headed "Reports of Directors – Pre-IPO Share Option Scheme", "Reports of Directors – Post-IPO Share Option Scheme", "Reports of Directors – Pre-IPO RSU Plan" and "Reports of Directors – Post-IPO RSU Plan" below.

## SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2015 are set out in Note 1 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for less than 30% of the Group's total revenue for the year ended 31 December 2015. And no revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2015 and 31 December 2014.

During the year ended 31 December 2015, the percentage of the aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 1.5% and 3.2% of the Group's cost of sales, respectively.

None of the Directors or any of their close associates or any shareholders (which to the best knowledge of the Directors owned more than 5% of the Company's issued share capital) had a material interest in the Group's five suppliers.

## BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2015 are set out in Note 23 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in Note 25 to the financial statements.

## CHARITABLE DONATIONS

There was no charitable donation made by the Group during the year ended 31 December 2015 (2014: Nil).

## REPORT OF DIRECTORS

### PERMITTED INDEMNITY

Under the Articles, generally, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained directors' liability insurance throughout the year, which provides appropriate cover for legal actions brought against the Directors. The level of the coverage is reviewed annually.

### DIRECTORS

The Directors during the year and up to the date of this annual report are:

#### Executive Directors

Mr. YAO Jianjun (*Chairman and Chief Executive Officer*)

Mr. CHEN Jianyu (*President*)

Mr. BI Lin (*Vice President*)

Mr. SUN Zhiyan (*Chief Technology Officer*)

Mr. LIN Jiabin (*Vice President*)

Mr. LIN Zhibin (*Vice President*)

#### Independent Non-executive Directors

Ms. LIU Qianli

Mr. LAI Xiaoling

Mr. MA Suen Yee Andrew

In accordance with article 84(1) of the Articles of Association, Messrs. SUN Zhiyan, LIN Jiabin and LIN Zhibin will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

### THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 20 to 27 of this annual report.

### DISCLOSURE OF INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Save as disclosed in this annual report, there are no changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date unless terminated by not less than three months' notice in writing served by either the Executive Director or the Company on the other.



## REPORT OF DIRECTORS

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years from the Listing Date unless terminated by not less than three months' notice in writing served by either the Independent Non-executive Director or the Company on the other.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has or is proposed to have a service contract or a letter of appointment with any member of the Group which is not determinable by any member of the Group within one year without payment of compensation, other than statutory compensation.

### REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and 32 to the financial statements in this annual report. The annual remuneration of the Directors and senior management whose profiles are included in the section headed "Directors and Senior Management" of this annual report fell within the following bands:

Remuneration band (RMB)	Number of individuals in year 2015
Below 1,000,000	7
1,000,000–2,000,000	4
2,000,001–3,000,000	1
3,000,001–4,000,000	–
4,000,001–5,000,000	–
Over 5,000,000	3

### REMUNERATION POLICY

The remuneration of the Group's employees is determined based on their performance, experience, competence and market comparables. Their remuneration package includes salaries, bonus related to the Group's performance, allowances, equity – settled share-based payment and state-managed retirement benefit schemes for employees in the PRC. The Company also provides customised training to its staff to enhance their technical and product knowledge.

The remuneration of Directors and members of the senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has adopted the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, Pre-IPO RSU Plan and Post-IPO RSU Plan as its long-term incentive schemes. Details of the incentive schemes are set out under the sections headed "Reports of Directors – Pre-IPO Share Option Scheme", "Reports of Directors – Post-IPO Share Option Scheme", "Reports of Directors – Pre-IPO RSU Plan" and "Reports of Directors – Post-IPO RSU Plan" below and Note 26 to the financial statements.

## REPORT OF DIRECTORS

### KEY RELATIONSHIPS WITH EMPLOYEES

As an online game developer and operator, we see our employees as the most important asset for the Company. We attract and retain our employees through providing comfortable office environment, pleasant work atmosphere, various staff welfare and competitive employee compensation. To motivate and develop our employees, we have built and implemented an objective performance evaluation system, an immediate employee feedback mechanism as well as a comprehensive employee training system. We offer share options and restricted stock units to our key employees who make significant contribution to the company, which makes employees' benefit in line with the Company's.

During the year ended 31 December 2015, the Company considered the relationship with employees was well and the turnover rate is acceptable.

### INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of these Independent Non-executive Directors. The Company considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2015.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 31 December 2015, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

#### Long positions in Shares

Name of Director/ chief executive	Capacity	Number of Shares held <sup>1</sup>	Approximate percentage of shareholding %
YAO Jianjun	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 2</sup>	470,400,000	30.53
CHEN Jianyu	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 3</sup>	256,088,000	16.62
BI Lin	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 4</sup>	126,720,000	8.22
SUN Zhiyan	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 5</sup>	139,488,000	9.05
LIN Jiabin	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 6</sup>	44,640,000	2.90
LIN Zhibin	Founder of a discretionary trust Interest in a controlled corporation <sup>1 and 7</sup>	44,640,000	2.90

## REPORT OF DIRECTORS

- 1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, six trusts in total.
- 2 The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 470,400,000 Shares held by YAO Holdings Limited pursuant to Part XV of the SFO.
- 3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN Jianyu (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,088,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.
- 4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI Lin (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 126,720,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.
- 5 The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 139,488,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.
- 6 The entire share capital of LINT Holdings Limited is wholly owned by Supreme Top Global Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust, which was established by Mr. LIN Jiabin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Lin Family Trust) and Supreme Top Global Limited are taken to be interested in 44,640,000 Shares held by LINT Holdings Limited pursuant to Part XV of the SFO.
- 7 The entire share capital of LINCHEN Holdings Limited is wholly owned by Sheen Field Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust, which was established by Mr. LIN Zhibin on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Zhi Family Trust) and Sheen Field Limited are taken to be interested in 44,640,000 Shares held by LINCHEN Holdings Limited pursuant to Part XV of the SFO.

Save as disclosed above, as at 31 December 2015, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES**

As at 31 December 2015, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

## REPORT OF DIRECTORS

### Long position in Shares

Name of Shareholder	Capacity	Number of Ordinary Shares held (long position)	Approximate percentage of shareholding %
TMF (Cayman) Ltd. <sup>1</sup>	Trustee of the family trusts	1,199,976,000	77.87
YAO Holdings Limited <sup>2</sup>	Beneficial owner	470,400,000	30.53
Jolly Spring International Limited <sup>2</sup>	Interest in a controlled corporation	470,400,000	30.53
Mr. YAO Jianjun <sup>2</sup>	Founder of a discretionary trust	470,400,000	30.53
	Interest in a controlled corporation		
Fishchen Holdings Limited <sup>3</sup>	Beneficial owner	256,088,000	16.62
Honour Gate Limited <sup>3</sup>	Interest in a controlled corporation	256,088,000	16.62
Mr. CHEN Jianyu <sup>3</sup>	Founder of a discretionary trust	256,088,000	16.62
	Interest in a controlled corporation		
BILIN Holdings Limited <sup>4</sup>	Beneficial owner	126,720,000	8.22
Rayoon Limited <sup>4</sup>	Interest in a controlled corporation	126,720,000	8.22
Mr. BI Lin <sup>4</sup>	Founder of a discretionary trust	126,720,000	8.22
	Interest in a controlled corporation		
Eastep Holdings Limited <sup>5</sup>	Beneficial owner	139,488,000	9.05
Ace Kingdom Limited <sup>5</sup>	Interest in a controlled corporation	139,488,000	9.05
Mr. SUN Zhiyan <sup>5</sup>	Founder of a discretionary trust	139,488,000	9.05
	Interest in a controlled corporation		
Fine Point Development Limited <sup>6</sup>	Beneficial owner	118,000,000	7.66
Mr. Dong Ting <sup>7</sup>	Founder of a discretionary trust	130,770,000	8.49
	Interest in a controlled corporation		

#### Notes:

- 1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust, The Zhi Family Trust and The Dong Family Trust, seven trusts in total.
- 2 The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 470,400,000 Shares held by YAO Holdings Limited pursuant to Part XV of the SFO.
- 3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,088,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.
- 4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI Lin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 126,720,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.
- 5 The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 139,488,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

## REPORT OF DIRECTORS

- 6 Fine Point Development Limited acts as nominee of TMF (Cayman) Ltd., the trustee of The Dong Family Trust, which was established by Mr. DONG Ting (as the settlor) on 19 June 2015 as a discretionary trust for the benefit of Mr. DONG and his family members. Mr. DONG (as founder of The Dong Family Trust) is taken to be interested in a maximum of 118,000,000 Shares in which Fine Point Development Limited is interested pursuant to Part XV of the SFO.
- 7 These interests represented:
- (a) 7,510,000 options granted to Mr. DONG Ting, which were subject to certain vesting schedule and conditions pursuant to the Pre-IPO Share Option Scheme, details of which are set out in the section headed “Pre-IPO Share Option Scheme” in this Annual Report;
  - (b) Mr. DONG Ting’s interest in respect of 5,260,000 Shares vested in him on 1 April 2015 pursuant to the Pre-IPO RSU Plan, details of which are set out in the section headed “Pre-IPO Restricted Share Unit Plan” in this annual report; and
  - (c) a maximum of 118,000,000 Shares in which Fine Point Development Limited is interested pursuant to Part XV of the SFO.

Other than as disclosed above, as at 31 December 2015, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

### DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed “Directors’ and chief executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations” above, at no time during the year ended 31 December 2015 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any body corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

### DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2015 and up to the date of this annual report.

### IMPLEMENTATION OF THE DEED OF NON-COMPETITION

Each of the Controlling Shareholders (together with Mr. CHEN Jianyu, Mr. SUN Zhiyan, Fishchen Holdings Limited, Eastep Holdings Limited, Honour Gate Limited and Ace Kingdom Limited) undertook to the Company in the deed of non-competition dated 17 November 2014 that each of them will not and will procure his/its respective close associates and/or controlled persons and/or controlled companies not to be interested or engage in business which competes with or is similar to the Group’s business and to refer any potential business opportunity to the Company for consideration before engaging in or becoming interested in a restricted business. Please refer to the section headed “Relationship with Controlling Shareholders” in the Prospectus for further details of the deed of non-competition.

The independent non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2015. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.



## REPORT OF DIRECTORS

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a controlling shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2015 and up to the date of this annual report.

### PRE-IPO SHARE OPTION SCHEME

The Company has conditionally adopted a Pre-IPO Share Option Scheme by a Shareholders' resolution on 17 November 2014 and a resolution of the Board on 17 November 2014. The Pre-IPO Share Option Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the Pre-IPO Share Option Scheme does not involve grant of options by the Company to subscribe for Shares once the Company is a listed issuer. Apart from the options already granted, no further options will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe for an aggregate of 105,570,000 Shares, which represented approximately 6.85% of the Shares of the Company in issue as at 31 December 2015, to senior management of the Group and other grantees. As at 31 December 2015, 24,992,500 Pre-IPO Share Options were vested to the named grantees.

## REPORT OF DIRECTORS

The table below sets out details of the outstanding options granted to senior management and other grantees under the Pre-IPO Share Option Scheme and movements during the year ended 31 December 2015:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2015	Number of Shares		Outstanding as at 31/12/2015
							Exercised during the year ended 31/12/2015	Cancelled/Lapsed during the year ended 31/12/2015	
<b>Senior management</b>									
Ms. ZHOU Yandan <sup>(1)</sup>	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	4,510,000	4,510,000	(168,000) <sup>(2)</sup>	-	4,342,000
Mr. CHENG Man Yu	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	6,430,000	6,430,000	-	-	6,430,000
Mr. DONG Ting	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	7,510,000	7,510,000	-	-	7,510,000
Ms. XU Yiqing	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	2,250,000	2,250,000	-	-	2,250,000
Mr. LIU Tao	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	1,130,000	1,130,000	-	-	1,130,000
<b>Other Grantees</b>									
Aggregate of 117 other grantees	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK\$0.55	83,740,000	82,690,000	(549,000) <sup>(2)</sup>	(4,550,000)	77,591,000
<b>Total</b>					<b>105,570,000</b>				<b>99,253,000</b>

Notes:

- (1) Ms. Zhou Yandan has tendered her resignation as vice president of the Company due to her personal reasons, effective from 16 February 2016.
- (2) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK\$1.87.

## REPORT OF DIRECTORS

For further details of the Pre-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in the Prospectus.

### POST-IPO SHARE OPTION SCHEME

The Company has adopted the Post-IPO Share Option Scheme by a Shareholders’ resolution on 17 November 2014 and a resolution of the Board on 17 November 2014. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

During the year ended 31 December 2015, an aggregate of 3,000,000 Shares, which represented approximately 0.19% of the Shares in issue as at 31 December 2015, were granted subject to certain vesting conditions pursuant to the Post-IPO Share Option Scheme to an eligible participant. As at 31 December 2015, 3,000,000 Shares granted pursuant to the Post-IPO Share Option Scheme, which represented approximately 0.19% of the Shares in issue as at 31 December 2015 and the date of this annual report, remained unvested.

The table below sets out details of the outstanding options granted to the grantee under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2015:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Shares				
						Granted on the date of grant	Outstanding as at 1/1/2015	Exercised during the year ended 31/12/2015	Cancelled/ Lapsed during the year ended 31/12/2015	Outstanding as at 31/12/2015
<b>Senior management</b>										
MR. YANG Guangwen	10/6/2015	25% of options on 10 June 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK\$3.934	HK\$3.62	3,000,000		-	-	3,000,000

Exercise price of the Share Options granted was HK\$3.934 per Share, which represents the highest of: (i) the closing price of HK\$3.69 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e., 10 June 2015; (ii) the average of the closing price of HK\$3.934 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US\$0.0000001.

For further details of the Post-IPO Share Option Scheme, please refer to the section headed “Statutory and General Information” in the Prospectus.



### Summary of the share option schemes

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1. Purpose	To provide an incentive for participants and to reward their performance with rights which allow them to subscribe for Shares and to own the Company in proportion with their contribution to the Company or any of its subsidiaries.	To provide an incentive or reward for the participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.
2. Eligible Participants	Full-time employees, consultants, executives or officers (including Executive, non-executive and Independent Non-executive Directors) of the Company or any of its subsidiaries who, in the absolute discretion of the Board, have contributed or will contribute to the Group.	Full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including Executive, non-executive and Independent Non-executive Directors) of the Company or any of its subsidiaries, and suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, has contributed or will contribute to the Group and whom the Board may in its absolute discretion select and think fit.
3. Maximum number of shares	The total number of Shares to be granted under the Pre-IPO Share Option Scheme shall not exceed 105,570,000, i.e., 8.80% and 6.86% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.  No further option could be granted under the Pre-IPO Share Option Scheme.	The total number of Shares in respect of which Options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.75% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.  The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time.
4. Maximum entitlement of each participant	The respective entitlement of each participant as granted on 17 November 2014.	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer.

## REPORT OF DIRECTORS

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
5. Option period	Options may be exercised at any time or times during the period within which the grantee may exercise the options, unless otherwise specified in his offer document.	The Board may in its absolute discretion specify conditions or performance targets at the time of grant of options which shall be satisfied by the grantee before his options may be exercised.
6. Exercise price	HK\$0.55 per Share	Exercise price shall be the highest of: (1) the official closing price of the Shares as stated on the Stock Exchange's daily quotations sheets on the date of offer of option; (2) average of the official closing prices of the Shares stated on the Stock Exchange's daily quotation sheets for the 5 business days before the date of offer and (3) nominal value of a Share.
7. Scheme period	It shall be valid and effective from 17 November 2014 to the 5th anniversary of the Listing Date (i.e., 5 December 2019) (both dates inclusive).	It shall be valid and effective from 17 November 2014 to the 10th anniversary of the Listing Date (i.e., 5 December 2024) (both dates inclusive).

## PRE-IPO RSU PLAN

The Company has approved and adopted a Pre-IPO RSU Plan by a Shareholders' resolution on 17 November 2014 and a resolution of the Board on 17 November 2014. The Pre-IPO RSU Plan is not subject to provisions of Chapter 17 of the Listing Rules as the Pre-IPO RSU Plan does not involve the grant of options by the Company to subscribe for new Shares.

Pursuant to the Pre-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 13,850,000 Shares, equivalent to approximately 0.90% of the Shares of the Company in issue as at 31 December 2015, to the senior management of the Group and other grantees. 13,850,000 RSUs were vested in full to the named grantees set out in the table below on 1 April 2015. As at 31 December 2015, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan.

## REPORT OF DIRECTORS

The table below sets out details of the outstanding RSUs granted to senior management and other grantees under the Pre-IPO RSU Plan and movements during the year ended 31 December 2015:

Name	Date of Grant	RSU period	Consideration paid	Granted on the date of grant	Outstanding as at 1/1/2015	Number of Shares underlying RSUs		
						Vested during the year ended 31/12/2015	Cancelled/ Lapsed during the year ended 31/12/2015	Outstanding as at 31/12/2015
<b>Senior management</b>								
Ms. ZHOU Yandan <sup>(1)</sup>	17/11/2014	5 years from the date of grant	Nil	1,050,000	1,050,000	1,050,000	-	-
Mr. CHEUNG Man Yu	17/11/2014	5 years from the date of grant	Nil	1,500,000	1,500,000	1,500,000	-	-
Mr. DONG Ting	17/11/2014	5 years from the date of grant	Nil	5,260,000	5,260,000	5,260,000	-	-
Mr. LIU Tao	17/11/2014	5 years from the date of grant	Nil	260,000	260,000	260,000	-	-
<b>Other grantees</b>								
Aggregate of 5 other grantees	17/11/2014	5 years from the date of grant	Nil	5,780,000	5,780,000	5,780,000	-	-
<b>Total</b>				<b>13,850,000</b>				-

Note:

(1) Ms. Zhou Yandan has tendered her resignation as vice president of the Company due to her personal reasons, effective from 16 February 2016.

### POST-IPO RSU PLAN

The Company has approved and adopted the Post-IPO RSU Plan by a Shareholders' resolution on 17 November 2014 and a resolution of the Board on 17 November 2014.

Pursuant to the Post-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 45,000,000 Shares, equivalent to approximately 2.92% of the Shares of the Company in issue as at 31 December 2015. No RSU was granted under the Post-IPO RSU Plan from the date of its adoption to the date of this annual report.

For further details of the Post-IPO RSU Plan, please refer to the section headed "Statutory and General Information" in the Prospectus.

## REPORT OF DIRECTORS

### Summary of the restricted share unit plans

	Pre-IPO RSU Plan	Post-IPO RSU Plan
1. Purpose	To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development of the Group.	Same as the Pre-IPO RSU Plan
2. Eligible Participants	<ul style="list-style-type: none"> <li>(i) Full-time employees or officers (including Executive, non-executive and Independent Non-executive Directors) of the Company;</li> <li>(ii) Full-time employees of any subsidiaries and the PRC Operating Entities;</li> <li>(iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and</li> <li>(iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.</li> </ul>	Same as the Pre-IPO RSU Plan
3. Maximum number of Shares	<p>The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e., 1.15% and 0.90% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.</p> <p>No further award of RSUs could be granted under the Pre-IPO RSU Plan.</p>	<p>The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e., 3.75% and 2.92% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.</p> <p>If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as of the date of approval of the refreshed limit.</p>
4. Term of the RSU Plan	Valid and effective for a period of 5 years from 17 November 2014.	Same as the Pre-IPO RSU Plan

## REPORT OF DIRECTORS

	Pre-IPO RSU Plan	Post-IPO RSU Plan
5. Grant of Award	The Board may grant an award of RSUs any time during the term of the respective RSU Plan on terms and conditions specified by it.	Same as the Pre-IPO RSU Plan
6. Rights attached	An award of RSUs does not carry any right to vote at general meetings of the Company. No grantee shall enjoy any right of a shareholder by virtue of the grant of award unless and until the Shares underlying the award are allotted and issued or transferred (as the case may be) to the grantee. Notwithstanding the foregoing, the Board may specify in its sole discretion that a grantee may enjoy rights to cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the award.	Same as the Pre-IPO RSU Plan

## MANAGEMENT CONTRACTS

Other than the service contracts and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2015.

## CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2015 or at any time during the year ended 31 December 2015.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

According to the Administration of Foreign Invested Telecommunications Enterprises, which was issued on 11 December 2011 and subsequently amended on 10 September 2008, foreign ownership of companies that provide value-added telecommunication services, including the operation of online games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into a series of agreements (i) among Xiamen Feiyu, Xiamen Guanghuan and the Relevant Shareholders, and (ii) among Xiamen Feiyu, Xiamen Youli, Kailuo Tianxia and Xiamen Guanghuan to enable the Company to exercise and maintain control over operations of the PRC Contractual Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they were wholly-owned subsidiaries of the Company.

## REPORT OF DIRECTORS

Despite the lack of clear guidance or interpretation on the Qualification Requirement, the Company has been gradually building up a track record of overseas telecommunications business operations for the purposes of being qualified, as early as possible, to acquire the entire equity interests of the PRC Operating Entities when the PRC laws allow foreign investors to invest in value-added telecommunications enterprises in the PRC.

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2015, expenditure amounting to RMB2,004,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2015, the Company had generated revenue from the overseas markets which amounted to RMB2,147,000.

Up to the date of this annual report, there is no further update in relation to the Qualification Requirement.

The Contractual Arrangements which were in place during the year ended 31 December 2015 are as follows:

1. Exclusive Business Cooperation Agreement dated 4 September 2014 pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Guanghuan, and Xiamen Guanghuan agreed to pay service fees to Xiamen Feiyou;
2. Exclusive Business Cooperation Agreements dated 31 October 2014 pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Youli and Kailuo Tianxia, and Xiamen Youli and Kailuo Tianxia agreed to pay service fees to Xiamen Feiyou;
3. Powers of Attorney dated 4 September 2014 pursuant to which the Relevant Shareholders irrevocably delegated the voting rights and other shareholder rights of Xiamen Guanghuan to Xiamen Feiyou or designee(s) of Xiamen Feiyou;
4. Powers of Attorney dated 31 October 2014 pursuant to which Xiamen Guanghuan irrevocably delegated the voting rights and other shareholder rights of Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou or designee(s) of Xiamen Feiyou;
5. Equity Interest Pledge Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders pledged all their equity interests in Xiamen Guanghuan to Xiamen Feiyou to provide security on the performance of contractual obligations of the Relevant Shareholders under the Contractual Arrangements;
6. Equity Interest Pledge Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan pledged all its equity interests in Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou to provide security on the performance of contractual obligations of Xiamen Guanghuan under the Contractual Arrangements;
7. Exclusive Option Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders and Xiamen Guanghuan agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Guanghuan from the Relevant Shareholders by itself or through its appointee(s); and
8. Exclusive Option Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Youli and Kailuo Tianxia from Xiamen Guanghuan by itself or through its appointee(s).

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2015.

### Waiver from the Stock Exchange and Annual Review

As Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, SUN Zhiyan, LIN Jiabin and LIN Zhibin are the Executive Directors, and where applicable, Controlling Shareholders or substantial Shareholders of the Company, they are the Company's connected persons pursuant to Rule 14A.07 of the Listing Rules. Each of the PRC Contractual Entities is directly or indirectly controlled by the Controlling Shareholders and the Executive Directors, they are therefore each an associate of the Controlling Shareholders and the Executive Directors, and a connected person of the Company pursuant to Rule 14A.12(1)(c) of the Listing Rules.

The Stock Exchange has granted a waiver to the Company from strict compliance with the connected transactions requirements under Chapter 14A of the Listing Rules in respect of the Contractual Arrangements. For details, please refer to the section "Connected Transactions" in the Prospectus.

The Directors, including the Independent Non-executive Directors, have reviewed the Contractual Arrangements set out above and have confirmed that the Contractual Arrangements were entered into (i) in the ordinary and usual course of business of the Group, (ii) on normal commercial terms, and (iii) in accordance with the respective agreement governing them on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Independent Non-executive Directors have reviewed and confirmed that:

1. the transactions carried out during the year ended 31 December 2015 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;
2. no dividends or other distributions have been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and
3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2015.

Further, the Company's auditors, Ernst & Young, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

A copy of the auditors' letter on the continuing connected transactions of the Group for the year ended 31 December 2015 has been provided by the Company to the Stock Exchange.

### RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2015 are set out in Note 32 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Reports of Directors – Non-exempt Continuing Connected Transactions") of the Company under the Listing Rules, they have complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

## REPORT OF DIRECTORS

### PRE-EMPTIVE RIGHTS

There is no pre-emptive rights provision under the Articles of Association or the Companies Law which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

### MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2015.

Senior management, executives and staff who, because of their offices in the Company, are likely to possess inside information, have also been requested to comply with the provision of the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2015.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2015, the Company repurchased a total of 12,696,000 Shares on the Stock Exchange at an aggregate price paid of HK\$23,781,491.33 before expenses pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on 4 June 2015.

Details of the share repurchase are as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate price paid HK\$
		Highest HK\$	Lowest HK\$	
August 2015	3,354,000	2.08	1.66	6,473,695.15
September 2015	556,500	2.02	1.81	1,062,225.12
October 2015	594,000	1.75	1.65	1,018,695.06
November 2015	4,993,500	1.95	1.76	9,175,350.77
December 2015	3,198,000	1.92	1.80	6,051,525.23
Total	12,696,000			23,781,491.33

All the 12,696,000 repurchased Shares have been cancelled prior to 13 January 2016 and the issued share capital of the Company has been reduced by the nominal value of the repurchased Shares. The premium paid on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board with a view to benefiting the Shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2015.



## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2015 and up to the date of this annual report.

## EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event during the period from 31 December 2015 to the approval date of these consolidated financial statements by the Board on 24 March 2016.

## BOARD COMMITTEES

The Company established the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 55 to 58 of this annual report.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2015, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK3.0 cents per Share (equivalent to approximately RMB2.5 cents per Share) out of the share premium account of the Company for the year ended 31 December 2015, subject to approval by the Shareholders at the AGM (the year ended 31 December 2014: Nil). The proposed final dividend, if approved by the Shareholders at the AGM, will be paid on 6 June 2016 to the Shareholders whose names appear on the register of members of the Company on 26 May 2016.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2016 to Friday, 20 May 2016, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Friday, 20 May 2016. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 17 May 2016.

Subject to Shareholders' approval of the proposed final dividend at the AGM, the proposed final dividends will be paid on Monday, 6 June 2016, to shareholders whose names appear on the register of members of the Company after close of business at 4:30 p.m. on Thursday, 26 May 2016. The register of members of the Company will be closed on Thursday, 26 May 2016 in order to qualify for the proposed final dividend. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 25 May 2016.

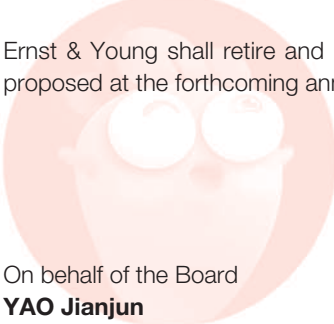


## REPORT OF DIRECTORS

### AUDITORS

The Company has appointed Ernst & Young as the auditors of the Company for the year ended 31 December 2015. The consolidated financial statements of the Group for the year ended 31 December 2015 have been audited by Ernst & Young.

Ernst & Young shall retire and being eligible, offer themselves for re-appointment, and a resolution to this effect shall be proposed at the forthcoming annual general meeting.



On behalf of the Board

**YAO Jianjun**

*Chairman*

Hong Kong, 24 March 2016

# CORPORATE GOVERNANCE REPORT

The Board is dedicated to establishing a sound corporate governance system to ensure formality and transparency of procedures, enhance corporate value and accountability and safeguard interests of the Shareholders.

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2015, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

In view of the recent amendments to the CG Code effective for the accounting period beginning on 1 January 2016, the Company has adopted a revised terms of reference of the Audit Committee on 28 December 2015 in order to comply with certain changes relating to the risk management and internal control section of the CG Code. The Company will review and commit to making necessary arrangement to comply with all the code provisions under the CG Code and the rising expectations of the Shareholders and investors.

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2015.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors on terms no less exacting than the required standard set out in the Model Code.

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2015. Details of the shareholding interests held by the Directors as at 31 December 2015 are set out on page 32 of this annual report.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2015.

## THE BOARD

The Board currently comprises nine Directors, including six executive Directors and three independent non-executive Directors:

### Executive Directors

Mr. YAO Jianjun (*Chairman and Chief Executive Officer*)  
Mr. CHEN Jianyu  
Mr. BI Lin  
Mr. SUN Zhiyan  
Mr. LIN Jiabin  
Mr. LIN Zhibin

### Independent Non-executive Directors

Ms. LIU Qianli  
Mr. LAI Xiaoling  
Mr. MA Suen Yee Andrew

Biographical details of the Directors are set out on pages 20 to 25 of this annual report.

## CORPORATE GOVERNANCE REPORT

The list of Directors (by category) is disclosed in all corporate communications issued by the Company and dispatched from time to time in accordance with the Listing Rules. The Independent Non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules. The Company maintains on its website and on the website of Hong Kong Exchanges and Clearing Limited (“HKEx”) an updated list of all Directors identifying their role and function and whether they are Independent Non – executive Directors.

Save as disclosed in this annual report, and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

During the year ended 31 December 2015, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent in accordance with guidelines set out in the Listing Rules.

Prior to the respective appointment of the Independent Non-executive Directors, each of them has submitted a written statement to the Stock Exchange confirming their independence and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company considers all Independent Non-executive Directors to be independent in accordance with the independence requirements set out in the Listing Rules.

The Company has arranged for appropriate insurance cover to protect Directors from possible legal action against them.

## FUNCTIONS AND RESPONSIBILITIES OF THE BOARD

### Management function

The Board is responsible for the leadership and control of the Company and oversees the Group’s business, strategic decisions and performance and is collectively responsible for promoting success of the Group by directing and supervising its affairs. The Board has established various Board committees and has delegated different responsibilities to these committees as set out in their respective terms of reference published on HKEx’s and the Company’s websites.

The Board is also responsible for major matters of the Group including approving and monitoring major policies of the Group, overall strategies and budgets, risk management and internal control systems, notifiable and connected transactions, nomination of directors and company secretary, and other significant financial and operational matters.

All Directors, including the Independent Non-executive Directors, have contributed a wide range of valuable business experience, knowledge and professionalism to the Board, ensuring its effective and efficient operations. The Independent Non-executive Directors contribute to the Group and its strategies and policies by providing independent, constructive and informed comments. The Directors also have full and timely access to all relevant information, and advice and services of the company secretary to guarantee full compliance with Board procedures and the relevant laws and regulations.

Under code provision A.1.6 of the CG Code, the Board may, if appropriate, authorize the Directors to seek independent professional advice at the expense of the Company. The Board has established a Policy on Obtaining Independent Professional Advice by Directors to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Group’s expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge his/their duties to the Group.

## CORPORATE GOVERNANCE REPORT

The day-to-day management, administration and operation of the Group are delegated to the senior management who are given clear directions as to their powers. The delegated functions are periodically reviewed by the Board. Authorization has to be obtained from the Board before any significant transaction is entered into by the senior management.

The Directors are accountable to all Shareholders for their leadership and supervision over the Group's operations, and are committed to increasing Shareholders' value. All Directors have carried out their duties in good faith and in compliance with the applicable laws and regulations, and have acted in the best interests of the Group and the Shareholders at all times.

### Corporate Governance Functions

The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2015.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 of the CG Code, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Chairman of the Board is Mr. YAO Jianjun and the duties of the Chief Executive Officer are also discharged by Mr. YAO Jianjun. Although the dual roles of Chairman and Chief Executive Officer is a deviation from code provision A.2.1 of the CG Code, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person like Mr. YAO Jianjun provides the Company with strong and consistent leadership, allowing the Company to more effectively plan and implement business decisions and strategies. Besides, taking into account the ever changing business environment, Mr. YAO Jianjun's extensive experience in the industry, personal profile, and role in the Group and its historical development is appropriate and beneficial to the Group's business prospects. Therefore, the Board considers that separation of the role of the Chairman and Chief Executive Officer of Mr. YAO Jianjun may result in unnecessary costs for the Group's daily operations.

Under the leadership of Mr. YAO Jianjun, the Board is responsible for approving and supervising the Group's general development strategy, sanctioning the annual budget and business plans, consenting to material investment projects related to the Group's business development, ensuring good corporate practices and procedures are established, evaluating of the Group's performance and supervising work of the management, and ensuring that the Board acts in the best interests of the Group, operates effectively, performs the necessary duties and discusses all significant and appropriate issues of the Company's business in a timely manner. All major decisions have been made in consultation with members of the Board, which comprises experienced and high caliber individuals, appropriate Board committees and the senior management team.

All Directors are entitled to propose to include any item in the agenda of a board meeting for appropriate discussion. Mr. YAO Jianjun, as Chairman of the Board, has appointed the company secretary to draft the Board meeting agendas. Under the assistance of the Executive Directors and the company secretary, the Chairman will ensure that all Directors are properly briefed on issues arising at board meetings and are provided, in a timely manner, with sufficient, clear, accurate, complete and reliable information required for necessary analysis based on their expertise. The Chairman will also encourage Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that board resolutions fairly reflect the Board's consensus.

## CORPORATE GOVERNANCE REPORT

As the Chief Executive Officer of the Company, Mr. YAO Jianjun has delegated sufficient authority for the operation and management of the Group's business to the Executive Directors and other senior management members, who are in-charge of daily management of the Group in every aspect, including consistent implementation of the Board's resolutions. The Executive Directors and members of senior management are accountable to the Chief Executive Officer for the Group's business operations in various aspects, while the Chief Executive Officer is accountable to the Board for the Group's operations as a whole.

The Board is of the view that there are adequate balances of power and safeguards in place. Nonetheless, the Board will continue to monitor and review the Company's current structure and make necessary changes when necessary.

### BOARD MEETINGS

Pursuant to code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communication.

The Board has held 13 Board meetings during the year ended 31 December 2015 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2015 are set out below:

<b>Name of the Directors</b>	<b>Attendance/ Number of Board Meeting</b>
<b>Executive Directors:</b>	
Mr. YAO Jianjun	13/13
Mr. CHEN Jianyu	12/13
Mr. BI Lin	13/13
Mr. SUN Zhiyan	12/13
Mr. LIN Jiabin	13/13
Mr. LIN Zhibin	13/13
<b>Independent Non-executive Directors:</b>	
Ms. LIU Qianli	11/13
Mr. LAI Xiaoling	11/13
Mr. MA Sune Yee Andrew	11/13

Pursuant to code provision A.2.7 of the CG Code, the Chairman should at least annually hold meetings with the Independent Non-executive Directors without the presence of the Executive Directors. The Chairman met with the Independent Non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2015 for discussing the investment and strategic planning of the Group.

## CORPORATE GOVERNANCE REPORT

### Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of each meeting are made available to the Directors in advance. Notice of regular Board meetings are served to all Directors at least 14 days before the meetings to give them an opportunity to attend. For other Board and committee meetings, reasonable notice is generally given.

For regular Board and Board committee meetings, all agendas, board papers, together with all applicable, complete and reliable information are sent to all the Directors at least three days before each meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company whenever necessary. Queries raised by the Directors should receive prompt and full response wherever possible.

All Directors may propose any business to be included in the agenda of the Board or Board committee meetings and contact the company secretary to ensure full compliance with all Board procedures and applicable regulations.

Matters discussed and resolved at Board meetings and Board committee meetings will be recorded in detail by the company secretary who shall prepare and file the minutes or resolutions. Generally, draft minutes of Board meeting are circulated to the Directors within a reasonable time after each meeting for their comments, and the final version is open for inspection by the Directors.

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2015.

If a substantial Shareholder or Director has a conflict of interest in a matter to be discussed by the Board which the Board considers material, such matter shall be considered at a Board meeting instead of resolved by written resolutions. Independent Non-executive Directors who and whose close associates have no material interest in the matter should be present at such a Board meeting.

### APPOINTMENT AND RE-ELECTION OF DIRECTORS

The procedures and process of appointment, re-election and removal of the Directors have been set out in the Articles. The Nomination Committee is responsible for reviewing the Board's composition, developing and formulating relevant procedures for nomination and appointment of the Directors, monitoring appointment and succession planning of the Directors, and assessing independence of the Independent Non-executive Directors.

Each of the Executive Directors has entered into a service contract with the Company for an initial term of three years, commencing from the Listing Date, which shall be renewed as determined by the Board or the Shareholders. The appointment of each of the Executive Director may be terminated by either party by giving at least three month's written notice to the other.

Each of the Independent Non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years, commencing from the Listing Date, which shall be renewed as determined by the Board or the Shareholders. The appointment of each of the Independent Non-executive Directors may be terminated by either party by giving at least three month's written notice to the other.

## CORPORATE GOVERNANCE REPORT

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

According to the Articles, one-third of the Directors (or if their number is not a multiple of three, the number nearest to but no less than one-third) are subject to retirement by rotation and shall be eligible for re-election and re-appointment at least once every three years. Directors who are required to retire by rotation shall be those who have held the longest term of office since their last appointment or re-election. Any new Director appointed to fill casual vacancy shall hold office until the first general meeting of the Company after his appointment. Any Director appointed as an addition to the Board shall hold office until the next following annual general meeting of the Company.

Any other appointment, resignation, removal or re-designation of Directors will be timely disclosed to the Shareholders by announcement and shall include in such announcement the reasons given by the Director for his resignation.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of the Directors and senior management of the Group. The amount of remuneration that the Directors receive is determined on the basis of the relevant Director's experience, responsibility, performance, seniority, position, qualification and the time he/she devotes to the Group's business. The Directors may from time to time be entitled to share options and RSUs.

Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in Note 8 to the financial statements of this annual report.

### INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

On appointment to the Board, each Director received a comprehensive induction package to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities and obligations, compliance practice under the Listing Rules, other relevant legal and regulatory requirements and the Company's business and governance policies.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are kept updated on the statutory and regulatory development, and business and market development so as to facilitate proper discharge of their responsibilities. Continuous briefing and professional development were arranged by the Group and its legal advisers for the Directors.



## CORPORATE GOVERNANCE REPORT

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO in relation to inside information. A summary of training received by the Directors for the year ended 31 December 2015 according to the records provided by the Directors is as follows:

Name of the Directors	Attending relevant training sessions
<b>Executive Directors:</b>	
Mr. YAO Jianjun	✓
Mr. CHEN Jianyu	✓
Mr. BI Lin	✓
Mr. SUN Zhiyan	✓
Mr. LIN Jiabin	✓
Mr. LIN Zhibin	✓
<b>Independent Non-executive Directors:</b>	
Ms. LIU Qianli	✓
Mr. LAI Xiaoling	✓
Mr. MA Suen Yee Andrew	✓

## BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Group's affairs. All of these three committees of the Company are governed by defined written terms of reference which are available on the Company's and HKEx's websites. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

### Nomination Committee

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2015 and the date of this annual report, the Nomination Committee comprises three members, the majority of whom were Independent Non-executive Directors. Mr. YAO Jianjun, Chairman of the Board and Executive Director served as the chairman of the Nomination Committee, and Ms. LIU Qianli, an Independent Non-executive Director and Mr. MA Suen Yee Andrew, an Independent Non-executive Director served as committee members.

The role and functions of the Nomination Committee are set out in its written terms of reference. Its primary responsibilities include (i) conducting annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board, and making recommendations on any proposed changes (if any) to the Board to complement the Company's corporate strategy; (ii) identifying, selecting and recommending individuals suitably qualified to become Board members and selecting or making recommendations to the Board on selection of individuals nominated for directorships; (iii) assessing the independence of the Independent Non-executive Directors; and (iv) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executives.

## CORPORATE GOVERNANCE REPORT

The Board has adopted a policy (the “**Board Diversity Policy**”) concerning diversity of Board members setting out a number of factors which the Nomination Committee would consider in reviewing and assessing the composition of the Board, and making recommendations on changes to the composition of the Board. When vacancies on the Board arise, the Nomination Committee will carry out a selection process in accordance with the Board Diversity Policy and consider all aspects of diversity set out in it, including but not limited to, gender, age, race, cultural and educational background, communication style, interpersonal skills, functional expertise, problem solving skills, professional qualifications, knowledge, industry and regional experience, and other qualities. All appointments to the Board will be based on merits, the Company’s own business model and specific needs arising from time to time. The Nomination Committee will review the Board Diversity Policy and its effectiveness regularly, discuss any need for changes with the Board and recommend changes to the Board Diversity Policy to the Board for its consideration and approval.

During the year ended 31 December 2015, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the Board Diversity Policy and its implementation, and assessed the independence of Independent Non-Executive Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2015 are set out below:

<b>Name of members of the Nomination Committee</b>	<b>Attendance/ Number of Nomination Committee meeting</b>
<i>Chairman:</i> Mr. YAO Jianjun	1/1
<i>Members:</i> Ms. LIU Qianli Mr. MA Suen Yee Andrew	1/1 1/1

### Remuneration Committee

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2015 and the date of this annual report, the Remuneration Committee comprises three members, the majority of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director, served as chairwoman of the Remuneration Committee, and Mr. BI Lin, an Executive Director and Mr. LAI Xiaoling, an Independent Non-executive Director, served as committee members.

The role and functions of the Remuneration Committee are set out in its terms of reference. The primary duties of the Remuneration Committee include, but not limited to, the following: (i) making recommendations to the Board on the Company’s policy and structure for remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) determining the specific remuneration packages of the Directors and senior management; and (iii) reviewing and approving the management’s performance based remuneration with reference to corporate goals and objectives resolved by the Board from time to time. The Remuneration Committee should consult the Chairman and/or chief executive about its remuneration proposals for other Executive Directors.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee held two meetings during the year ended 31 December 2015 to review, inter alia, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; (iii) the granting of share options pursuant to the Post-IPO Share Option Scheme of the Company; and (iv) other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2015 are set out below:

Name of members of the Remuneration Committee	Attendance/ Number of Remuneration Committee meeting
<i>Chairwoman:</i>	
Ms. LIU Qianli	2/2
<i>Members:</i>	
Mr. Bi Lin	2/2
Mr. LAI Xiaoling	2/2

Details of the remuneration of each of the Directors for the year ended 31 December 2015 are set out in Note 8 to the financial statements of this annual report.

### Audit Committee

The Board established the Audit Committee on 17 November 2014 with written terms of reference in accordance with Code Provision C.3.3 of the CG Code. The written terms of reference were updated on 28 December 2015 to comply with the changes relating to the risk management and internal control of the CG Code effective for the accounting period beginning on 1 January 2016, and are maintained on both the websites of the Company and HKEx. As at 31 December 2015 and the date of this annual report, the Audit Committee comprises three members, all of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director with appropriate professional qualifications required under Rule 3.10(2) and 3.21 of the Listing Rules, served as chairwoman of the Audit Committee, and Mr. LAI Xiaoling, an Independent Non-executive Director and Mr. MA Suen Yee Andrew, an Independent Non-executive Director served as committee members. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience relating to accounting and financial management for discharge of their responsibilities.

The role and functions of the Audit Committee are set out in its written terms of reference. The primary duties of the Audit Committee are (i) serving as a focal point for communication between the Directors, and the external auditors and the internal auditors (where an internal audit function exists) as regards their duties relating to financial and other reporting, risk management and internal control, external and internal audits and such other financial and accounting matters as the Board determines from time to time; (ii) assisting the Board by providing an independent view of effectiveness of the financial reporting process, risk management and internal control systems of the Group; (iii) overseeing the audit process and performing other duties and responsibilities as assigned by the Board; (iv) reviewing and monitoring the relationship between the external auditors and the Group, especially independence and effectiveness of the external auditors; (v) reviewing the Group's financial information, ensuring compliance with accounting standards and reviewing significant adjustments from audit; and (vi) reviewing the Company's financial controls, risk management and internal control systems.

## CORPORATE GOVERNANCE REPORT

The Audit Committee held two meetings during the year ended 31 December 2015 to review the annual results of the Group for the year ended 31 December 2014 and the interim results of the Group for the six months ended 30 June 2015 as well as the reports prepared by the external auditors relating to 2015 annual audit and interim review plans and accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2015 are set out below:

<b>Name of members of the Audit Committee</b>	<b>Attendance/ Number of Audit Committee meeting</b>
<i>Chairwoman:</i> Ms. LIU Qianli	2/2
<i>Members:</i> Mr. LAI Xiaoling Mr. MA Suen Yee Andrew	2/2 2/2

Minutes of Audit Committee meetings shall be kept by the company secretary of the Company. Draft and final meeting minutes shall be sent to all members of the Audit Committee for their comments and record within a reasonable time after the related meeting.

The Group's annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee on 24 March 2016, and it considers that the said annual results are in compliance with the relevant accounting standards, rules and regulations, and appropriate disclosures have been duly made.

### SHAREHOLDING INTEREST OF SENIOR MANAGEMENT MEMBERS

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 32 to 33 of this annual report.

### REMUNERATION OF EXTERNAL AUDITORS

The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditors' report on page 64.

The external auditors of the Company will be invited to attend the forthcoming annual general meeting to answer questions about conduct of the audit, preparation for and contents of the auditor's report and auditor's independence.

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2015, the total fee paid/payable to Ernst & Young in respect of audit and non-audit services is set out below:

<b>Items of auditors' services</b>	<b>Amount (RMB'000)</b>
Audit service	2,600
<b>Total</b>	<b>2,600</b>

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment and removal of external auditors. Such appointment, re-appointment and removal are subject to the approval by the Board and the Shareholders in the general meetings of the Company.

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015 which give a true and fair view of the state of affairs of the Group as well as results and cash flow during that year.

The Directors consider that in preparing for the financial statements, the Group has ensured that statutory requirements are met, appropriate and consistently adopted accounting policies are applied, and judgments and estimates which are reasonable and prudent in accordance with the applicable accounting standards are made.

The Directors are responsible for ensuring that proper accounting records are kept so that the Group could prepare financial statements in accordance with statutory requirements and the Group's accounting policies, safeguarding the assets of the Group and taking reasonable steps for preventing and detecting fraud and other irregularities within the Group. They are also responsible for presenting balanced, clear and understandable annual and interim reports, inside information announcements and other financial disclosures required by the Listing Rules and statutory provisions.

The senior management has provided such explanation and information, and monthly updates to the Board as are necessary to enable the Board to carry out a balanced and informed assessment of the financial information, position and prospect of the Group.

During the year ended 31 December 2015, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## CORPORATE GOVERNANCE REPORT

### RISK MANAGEMENT AND INTERNAL CONTROL

The Group's risk management and internal control systems have been designed to safeguard the assets of the Group, assure proper maintenance of accounting records, and ensure compliance with the relevant laws and regulations by the Group.

The Board has overall responsibility for maintaining a sound and effective risk management and internal control systems of the Group, which includes a defined management structure with limits of authority, and is designed to ensure proper application of accounting standards, provision of reliable financial information for internal use, publication and compliance with the relevant laws and regulations. The system is developed to provide reasonable, but not absolute, assurance against material misstatement or losses and to manage, but not fully eliminate, risk of operational system failure and the Group's failure in meeting the standards. The Board will review the risk management and internal control systems on an annual basis through the Audit Committee.

During the year ended 31 December 2015, the Board has performed a review of effectiveness of the Group's risk management and internal control systems, including the financial, operational, compliance control and risk management aspects of the Group. It has also assessed the accounting and financial reporting functions of the Group, its budget, resources and training programmes, and performed appraisals of the staff's qualifications and experience. The Board considers that the existing risk management and internal control systems cover the current operations of the Group, and is effective and adequate.

The risk management and internal control systems of the Group will be constantly optimized to match the continuous business development of the Group.

### SHAREHOLDERS' RIGHTS

To safeguard the Shareholders' interests and rights, separate resolutions are proposed for each substantially separate issue at general meetings, including the election of individual Directors. Except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands, all resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules. Poll results will be posted on the websites of the Company and HKEx after each general meeting.

#### Putting Forward Proposals at General Meetings

The annual general meeting and other general meetings of the Company are the primary forum for communication between the Company and its Shareholders. The Company shall provide the Shareholders with information on the resolution(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable the Shareholders to make an informed decision on the proposed resolution(s).

There is no provision in the Articles of Association or the Companies Law for the Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the below paragraph.

With regard to proposing a person for election as a director of the Company, please refer to the procedures posted on the Company's website.

## CORPORATE GOVERNANCE REPORT

### Convening an Extraordinary General Meeting by Shareholders

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the company secretary of the Company, require an extraordinary general meeting to be called by the Board for transaction of business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) may do so himself (themselves) in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company.

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Board believes that effective communication with investors is essential for building investors' confidence and attracting new investors with improved understanding of the Group's business performance and strategies. The Group also recognizes the importance of transparent and timely disclosure of corporate information which will enable investors to make informed investment decisions.

General meetings of the Company are expected to provide a forum for communication between the Board and the Shareholders. The Chairman of the Board, and chairman/chairwoman (where applicable) of the Nomination Committee, Remuneration Committee and Audit Committee and, in their absence, other members of the respective committees are available to answer questions at general meetings. The Chairman shall ensure that appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole.

The Company has disclosed necessary information and updates on the Group's business developments and operations, financial information and corporate governance measures to the Shareholders in compliance with Listing Rules and such are made available for public access on the Company's website at [www.feiyuhk.com](http://www.feiyuhk.com). The Company has devised a shareholders' communication policy since the Listing Date, which shall be reviewed on a regular basis to ensure its effectiveness.

Shareholders may also make a request for the Company's information any time to the extent that such information is publicly available. Corporate communication of the Company will be provided to the Shareholders in plain language and in both Chinese and English versions to facilitate their understanding. Shareholders have a right to choose the language (either Chinese or English) or means of receipt of corporate communications (in hard copy or through electronic means).

For putting forward any enquiries to the Board, the Shareholders may send written enquiries to the Company as follows:

Address: Floor 2, Block 2, No. 14 Wanghai Road, Ruanjian Yuan Two, Siming District, Xiamen, Fujian Province, PRC  
Email: IR@feiyu.com

Note: The Company will not normally deal with verbal or anonymous enquiries.

Shareholders should direct enquires about their shareholdings to the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## CORPORATE GOVERNANCE REPORT

### GENERAL MEETINGS

Annual general meeting proceedings are reviewed from time to time to ensure that the Company follows best corporate governance practices. The notice of annual general meeting is distributed to all shareholders at least 20 clear business days prior to the annual general meeting and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the annual general meeting exercises his power under the Articles to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the beginning of the meeting. Poll voting results are posted on the Company's website on the day of the annual general meeting.

During the year ended 31 December 2015, one extraordinary general meeting and one annual general meeting were held. The attendance records of each Director at the extraordinary general meeting and annual general meeting are set out below:

Name of the Directors	Attendance/ Number of annual general meeting	Attendance/ Number of extraordinary general meeting
<b>Executive Directors:</b>		
Mr. YAO Jianjun	1/1	1/1
Mr. CHEN Jianyu	1/1	1/1
Mr. BI Lin	1/1	1/1
Mr. SUN Zhiyan	1/1	0/1
Mr. LIN Jiabin	1/1	0/1
Mr. LIN Zhibin	1/1	0/1
<b>Independent Non-executive Directors:</b>		
Ms. LIU Qianli	0/1	0/1
Mr. LAI Xiaoling	1/1	0/1
Mr. MA Sune Yee Andrew	0/1	0/1
<b>Company Secretary</b>		
Mr. Cheung Man Yu	1/1	1/1

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the view of the Shareholders. Ms. LIU Qianli and Mr. MA Suen Yee Andrew, the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 4 June 2015 due to other business commitments. Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, the independent non-executive Directors, were unable to attend the extraordinary general meeting of the Company held on 18 August 2015 due to other business commitments.

The forthcoming AGM will be held on 20 May 2016. The notice of the AGM will be sent to the Shareholders at least 20 clear business days before the AGM.



## CORPORATE GOVERNANCE REPORT

### CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during the year ended 31 December 2015.

### COMPANY SECRETARY

Mr. CHEUNG Man Yu is the company secretary of the Company. Mr. CHEUNG Man Yu has day-to-day knowledge of the Group's affairs. He is also the Chief Financial Officer of the Company and he reports to the Chairman and Chief Executive Officer. All Directors have access to the advice and services of the company secretary to ensure that the Board procedures, and all applicable law, rules and regulations are followed.

Mr. CHEUNG Man Yu has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2015.

# INDEPENDENT AUDITORS' REPORT



## Ernst & Young

22nd Floor  
CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

Tel: +852 2846 9888  
Fax: +852 2868 4432  
www.ey.com

安永會計師事務所  
香港中環添美道1號  
中信大廈22樓

電話: +852 2846 9888  
傳真: +852 2868 4432  
www.ey.com

## To the shareholders of Feiyu Technology International Company Ltd.

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries set out on pages 66 to 132, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITORS' REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### **Ernst & Young**

*Certified Public Accountants*

Hong Kong

24 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>REVENUE</b>	5	<b>322,147</b>	339,071
Cost of sales		<b>(54,482)</b>	(42,293)
<b>Gross profit</b>		<b>267,665</b>	296,778
Other income and gains	5	<b>44,459</b>	6,273
Selling and distribution expenses		<b>(43,657)</b>	(35,278)
Administrative expenses		<b>(51,881)</b>	(60,717)
Research and development costs		<b>(114,820)</b>	(57,783)
Finance costs	7	<b>(523)</b>	–
Other expenses		<b>(214)</b>	(266)
Share of losses of associates		<b>(1,299)</b>	(506)
<b>PROFIT BEFORE TAX</b>	6	<b>99,730</b>	148,501
Income tax expense	10	<b>(4,742)</b>	(6,133)
<b>PROFIT FOR THE YEAR</b>		<b>94,988</b>	142,368
Attributable to:			
Owners of the parent	12	<b>65,882</b>	117,885
Non-controlling interests		<b>29,106</b>	24,483
		<b>94,988</b>	142,368
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	12		
– Basic		<b>RMB0.04</b>	RMB0.11
– Diluted		<b>RMB0.04</b>	RMB0.11

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
<b>PROFIT FOR THE YEAR</b>		<b>94,988</b>	142,368
<b>OTHER COMPREHENSIVE LOSS</b>			
<b>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</b>			
Available-for-sale investments:			
Changes in fair value		(10,906)	2,142
Reclassification adjustments for gains included in the consolidated statement of profit or loss	5	(7,748)	(1,961)
Exchange differences on translation of foreign operations		16,540	(1,697)
<b>Net other comprehensive loss to be reclassified to profit or loss in subsequent periods</b>		<b>(2,114)</b>	(1,516)
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX</b>		<b>(2,114)</b>	(1,516)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>92,874</b>	140,852
Attributable to:			
Owners of the parent		63,768	116,369
Non-controlling interests		29,106	24,483
		<b>92,874</b>	140,852

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	18,480	14,448
Goodwill	14	409,557	408,619
Other intangible assets	15	36,517	55,798
Long term receivables		2,210	399
Available-for-sale investments	20	274,758	–
Investment in associates	16	16,701	–
Deferred tax assets	17	3,244	1,402
Total non-current assets		761,467	480,666
<b>CURRENT ASSETS</b>			
Accounts receivable	18	3,280	3,062
Receivables due from third-party game distribution platforms and payment channels	18	50,197	118,370
Prepayments, deposits and other receivables	19	6,771	51,475
Short term investment	20	20,108	–
Available-for-sale investment	20	20,070	28,235
Cash and cash equivalents	21	463,897	545,511
Total current assets		564,323	746,653
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing	23	51,129	–
Other payables and accruals	22	187,875	50,055
Tax payable		3,100	2,719
Deferred revenue	24	7,716	14,836
Total current liabilities		249,820	67,610
<b>NET CURRENT ASSETS</b>		314,503	679,043
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,075,970	1,159,709

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,075,970</b>	1,159,709
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	17	4,208	6,769
Deferred revenue	24	1,319	2,834
Total non-current liabilities		5,527	9,603
<b>Net assets</b>		<b>1,070,443</b>	1,150,106
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	25	1	1
Share premium	25	490,051	498,034
Treasury shares	25	(5,090)	–
Reserves	27	587,951	627,702
		1,072,913	1,125,737
<b>Non-controlling interests</b>		<b>(2,470)</b>	24,369
<b>Total equity</b>		<b>1,070,443</b>	1,150,106

**Yao Jianjun**  
Director

**Chen Jianyu**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

Attributable to owners of the parent

	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	-	-	608	-	511,028	54	-	37,410	549,100	(999)	548,101
Profit for the year	-	-	-	-	-	-	-	117,885	117,885	24,483	142,368
Other comprehensive income for the year:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	181	-	-	181	-	181
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(1,697)	-	(1,697)	-	(1,697)
Total comprehensive income for the year	-	-	-	-	-	181	(1,697)	117,885	116,369	24,483	140,852
Contribution by shareholders	-	-	-	-	9,000	-	-	-	9,000	25	9,025
Contribution to non-controlling shareholders	-	-	-	-	(935)	-	-	-	(935)	935	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	1,096	1,096
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	1,229	1,229
Issue of shares	1	(1)	-	-	-	-	-	-	-	-	-
Issue of shares for the initial public offering ("IPO")	-	522,589	-	-	-	-	-	-	522,589	-	522,589
Issue of shares under the over-allotment option	-	11,222	-	-	-	-	-	-	11,222	-	11,222
Share issue expenses	-	(35,776)	-	-	-	-	-	-	(35,776)	-	(35,776)
Equity-settled share-based payment expenses	-	-	-	14,168	-	-	-	-	14,168	-	14,168
Distribution to the then shareholders of a subsidiary	-	-	-	-	-	-	-	(60,000)	(60,000)	-	(60,000)
Dividends paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(2,400)	(2,400)
Transfer from retained profits	-	-	10,324	-	-	-	-	(10,324)	-	-	-
At 31 December 2014	1	498,034	10,932*	14,168*	519,093*	235*	(1,697)*	84,971*	1,125,737	24,369	1,150,106



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	1	498,034	10,932	14,168	519,093	235	(1,697)	84,971	-	1,125,737	24,369	1,150,106
Profit for the year	-	-	-	-	-	-	-	65,882	-	65,882	29,106	94,988
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	(18,654)	-	-	-	(18,654)	-	(18,654)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	16,540	-	-	16,540	-	16,540
Total comprehensive income for the year	-	-	-	-	-	(18,654)	16,540	65,882	-	63,768	29,106	92,874
Capital injection by non-controlling shareholders	-	-	-	-	5	-	-	-	-	5	595	600
Contribution by non-controlling shareholders (note 1)	-	-	-	-	2,897	-	-	-	-	2,897	(2,897)	-
Distribution to non-controlling shareholders (note 2)	-	-	-	-	(4,943)	-	-	-	-	(4,943)	4,943	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,957)	(1,957)
Liquidation of a subsidiary	-	-	-	-	-	-	-	-	-	-	(7)	(7)
Acquisition of non-controlling interests in Xiamen Yidou Information Technology Co., Ltd. ("Xiamen Yidou") and Xiamen Zhangxin Interactive Technology Co., Ltd. ("Xiamen Zhangxin")	-	48,006	-	-	(163,715)	-	-	-	-	(115,709)	(28,344)	(144,053)
Repurchase of shares	-	-	-	-	-	-	-	-	(19,789)	(19,789)	-	(19,789)
Cancellation of shares	-	(14,699)	-	-	-	-	-	-	14,699	-	-	-
Equity-settled share-based payment expenses	-	-	-	84,208	-	-	-	-	-	84,208	-	84,208
Exercise of share options	-	22,301	-	(21,971)	-	-	-	-	-	330	-	330
Dividends paid by a subsidiary	-	-	-	-	-	-	-	-	-	-	(28,278)	(28,278)
Transfer from retained profits	-	-	847	-	-	-	-	(847)	-	-	-	-
2015 interim and special dividends	-	(63,591)	-	-	-	-	-	-	-	(63,591)	-	(63,591)
At 31 December 2015	1	490,051	11,779*	76,405*	353,337*	(18,419)*	14,843*	150,006*	(5,090)	1,072,913	(2,470)	1,070,443

Note 1: Non-controlling shareholders forfeited part of their dividend right upon the dividend distribution of a subsidiary.

Note 2: Distribution to non-controlling shareholders stands for the share-based payments and capital injection of the Company recognised for non-wholly-owned subsidiaries.

\* These reserve accounts comprise the consolidated reserves of RMB587,951,000 (2014: RMB627,702,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before tax		99,730	148,501
Adjustments for:			
Finance costs	7	523	–
Interest income	5	(16,698)	(298)
Depreciation of property, plant and equipment	13	5,853	4,487
Amortisation of intangible assets	15	21,300	21,625
Gain on disposal of items of property, plant and equipment		(72)	(25)
Loss on disposal of a subsidiary		–	156
Equity-settled share-based payment expenses		84,208	14,168
Fair value gains, net:			
Available-for-sale investments (transfer from equity on disposal)	5	(7,748)	(1,961)
Loss on liquidation of a subsidiary		21	–
Gain on fair value change of contingent consideration	5	(7,415)	–
Share of losses of associates		1,299	506
Gain on disposal of an associate		–	(506)
		<b>181,001</b>	186,653
(Increase)/decrease in accounts receivable		(218)	395
Decrease/(increase) in receivables due from third-party game distribution platforms and payment channels		68,173	(66,760)
Decrease/(increase) in prepayments, deposits and other receivables		1,569	(4,862)
Increase in long term receivables		(1,811)	(399)
(Decrease)/increase in other payables and accruals		(2,923)	32,094
(Decrease)/increase in deferred revenue		(8,635)	8,846
Decrease in amounts due from shareholders		–	3,334
Cash generated from operations		<b>237,156</b>	159,301
Income tax paid		(8,764)	(9,951)
Net cash flows from operating activities		<b>228,392</b>	149,350

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received		16,062	298
Purchases of items of property, plant and equipment		(10,101)	(11,019)
Additions to other intangible assets		(2,019)	(1,713)
Proceeds from disposal of items of property, plant and equipment		338	256
Purchase of available-for-sale investments		(680,648)	(56,900)
Proceeds from disposal of available-for-sale investments		400,247	36,862
Deposit transferred from/(to) an account in a domestic securities company		43,729	(43,729)
Acquisition of non-controlling interests		-	(2,375)
Investments in associates		(15,000)	(4,750)
Acquisition of subsidiaries		(1,020)	(31,010)
Disposal of a subsidiary		-	1,154
Repayment of loans from an associate		-	750
Net cash flows used in investing activities		(248,412)	(112,176)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from capital injection of subsidiaries by the then shareholders		-	9,000
Proceeds from capital injection of subsidiaries by non-controlling shareholders		600	25
Proceeds from issue of shares		-	533,812
Payment of listing expenses		(1,957)	(33,829)
Addition of bank loans		347,611	-
Repayment of bank loans		(297,597)	-
Repurchase of shares		(19,002)	-
Interest paid		(308)	-
Dividends paid		(91,869)	(122,400)
Net cash flows (used in)/from financing activities		(62,522)	386,608
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		545,511	123,426
Effect of foreign exchange rate changes, net		928	(1,697)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>463,897</b>	<b>545,511</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents as stated in the statement of financial position	21	463,897	545,511

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Codan Trust Company (Cayman) Ltd. at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the operation and development of web and mobile games in Mainland China. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Ltd. (the "Stock Exchange") on 5 December 2014.

### Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Feiyu Technology Hong Kong Ltd.	Hong Kong	HK\$1	25 March 2014	100%	–	Investment holding
Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan")	PRC/ Mainland China	RMB10,000,000	12 January 2009	–	100%	Game development and distribution
Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli")	PRC/ Mainland China	RMB10,000,000	19 September 2011	–	100%	Game development and distribution
Xiamen Yidou	PRC/ Mainland China	RMB1,000,000	11 June 2012	–	100%	Game development and distribution
Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia")	PRC/ Mainland China	RMB10,000,000	3 May 2012	–	100%	Game development and distribution
Xiamen Feiyu Information Technology Co., Ltd.	PRC/ Mainland China	US\$1,000,000	24 June 2015	–	100%	Investment holding
Xiamen Zhangxin	PRC/ Mainland China	RMB100,000	27 October 2014	–	100%	Game development and distribution
Xiamen Guangyu Investment Management Co., Ltd.	PRC/ Mainland China	RMB100,000	10 November 2014	–	100%	Game development and distribution

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

*Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*  
*Annual Improvements to IFRSs 2010-2012 Cycle*  
*Annual Improvements to IFRSs 2011-2013 Cycle*

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	<i>Financial Instruments</i> <sup>3</sup>
Amendments to IFRS 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>1</sup>
Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> <sup>1</sup>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> <sup>1</sup>
IFRS 14	<i>Regulatory Deferral Accounts</i> <sup>5</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>3</sup>
IFRS 16	<i>Leases</i> <sup>4</sup>
Amendments to IAS 1	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>2</sup>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>2</sup>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> <sup>1</sup>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> <sup>1</sup>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> <sup>1</sup>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>5</sup> Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

So far, the Group considered that these issued but not yet effective IFRSs may result in changes in accounting policies and the Group is in the process of assessing the impact of the above new standards on the Group's results and financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Investments in associates and joint ventures**

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

#### Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- |         |   |   |
|---------|---|---|
| Level 1 | – | based on quoted prices (unadjusted) in active markets for identical assets or liabilities   |
| Level 2 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – | based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable                              |

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Office equipment	19%-32%
Motor vehicles	19%-24%
Leasehold improvements	20%-50%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Intangible assets (other than goodwill) (Continued)**

Software – Software assets are amortised on a straight-line basis over the shorter of the estimated useful lives or as stipulated by law. The estimated useful lives range from 2 years to 15 years.

Game intellectual properties and licences – Games named Carrot Fantasy I and Carrot Fantasy II acquired from business combinations are amortised over their estimated beneficial years on straight-line basis. The estimated useful lives range from 3 years to 4 years.

#### *Research and development costs*

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

#### **Leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

#### **Investments and other financial assets**

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### *Initial recognition and measurement (Continued)*

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments and other financial assets (Continued)

##### *Available-for-sale financial investments (Continued)*

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

#### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group’s consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Derecognition of financial assets (Continued)**

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment of financial assets (Continued)

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and interest-bearing bank borrowing.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on classification as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **Treasury shares**

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

#### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

(a) *Game operation*

The Group's online and single player games allow players to play for free. Players can purchase in-game virtual currency, which can be used to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. The Group operates its online and single player games through cooperation with various third-party game distribution platforms including online application stores, web-based and mobile game portals and mobile operators and derives its revenue from sales of in-game currency and items. The Group is responsible for providing ongoing updates of new contents, technical support for the operation of the games. The platforms provide the servers for downloading and hosting the games and are responsible for distribution, marketing, platform maintenance and payment collections from players. Players purchase the Group's in-game currency through the platforms' own charging systems by remitting the payment directly to the platforms. After deducting the commission charged by the platforms, the platforms remit the rest of net proceeds to the Group. The portion of the proceeds received by the Group is calculated based on the standard price of in-game virtual currency sold and the agreed share ratio in the contracts with platforms.

The Group assesses its rights and responsibilities in the cooperation with the platforms to deliver the game experience to the players to determine whether it is principal or agent in the arrangement. If the Group considers it is the principal in the arrangement, revenue is recognised on a gross basis, which is the gross spending by the players. Then the portion charged by the platforms is recorded in selling and distribution expenses as channel costs. If the Group considers it is the agent in the arrangement, revenue is recognised on a net basis, which is the net proceeds from platforms after deducting the portion charged by the platforms.

Certain third-party platforms like mobile game portals offer various marketing discounts from time to time to players to encourage spending on these platforms. The actual prices paid by individual players may be lower than the standard prices of virtual currency. Such marketing discounts are neither available to be tracked reliably nor borne by the Group. For revenue related to these platforms, it is measured at the fair value of the consideration received or receivable, which is the net amount from these third-party platforms.

For online games, the in-game items and premium features, which are purchased by virtual currency, are considered value-added services and rendered over a pre-specified period or throughout the whole game life. Once the players purchase virtual currency, the proceeds are recorded in deferred revenue and recognised in revenue after the virtual currency is used to purchase in-game items or premium features which is either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated user life of paying players as appropriate. The Group monitors the operational statistics and usage patterns of the virtual items.

For single player games, since they are downloaded and installed on each individual mobile device, the Group does not have the obligation for game maintenance once the game is downloaded and neither has the access to the game data on each mobile device. Revenue is recognised upon the purchase of virtual items by players. The cost of providing ongoing technical support for the operation of the games is considered to be insignificant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition (Continued)

(b) *Online game distribution*

The Group publishes third party developers' games on its own game distribution platform, 737 Platform. The Group generates its revenue by charging commission to game developers based on a certain portion of the purchase amount for in-game currency remitted by players through the Group's charging system. After deducting the commission charged by the Group, the Group remits the rest of the amount to the game developers. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

(c) *Licensing income*

The Group receives royalty income from third-party licensees in exchange for the exclusive operation of the Group's self-developed games in certain regions and providing related technical support. The royalty fees include an upfront fee and, in certain cases, an additional fee during the contracted licence period, which is determined based on an agreed amount when accumulated virtual currency purchased by the players with accounts registered with the third parties exceeds certain amounts. The upfront fee is recognised ratably over the contracted licence period. The additional royalty fee is recognised when the actual purchase by the players exceeds the agreed amount in contract.

(d) *Advertising revenue*

Online advertising revenue is derived principally from online advertising arrangements. The Group enters into advertising arrangements with advertisers to allow them to place advertisements in particular areas of the Group's games. Advertising revenue from an advertising arrangement is recognised either ratably over the displaying period of the advertisement or upon a particular action by players, i.e., click, download or activate.

(e) *Technical service income*

The Group derives revenue from technical services. Technical service revenue is recognised when technical support services are rendered.

(f) *Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Share-based payments

##### *Equity-settled share-based payments*

The Company operates certain share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 26 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding shares is reflected as additional share dilution in the computation of earnings per share.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments (Continued)

#### *Other share-based payments*

The shareholders have granted to a member of senior management certain shares in a subsidiary of the Company as a reward for the member's services to the Group. The reward cost was measured at the fair value of the shares and expensed to the consolidated statement of profit or loss as senior management's remuneration.

### Other employee benefits

#### *Pension scheme*

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

#### *Pension obligations*

The Group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on a certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

#### *Housing benefits*

Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### Foreign currencies

The functional currency of the Company is the Hong Kong dollar ("HK\$"). These financial statements are presented in RMB, which is the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB409,557,000 (2014: RMB408,619,000). Further details are given in note 14.

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Deferred tax assets*

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2015 was RMB299,000 (2014: Nil). The amount of unrecognised tax losses at 31 December 2015 was RMB70,937,000 (2014: RMB7,543,000). Further details are contained in note 17 to the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

#### Estimation uncertainty (Continued)

##### *Online game revenue recognition*

Estimation of the sales value of unutilised virtual items and unconsumed virtual items.

Some of the Group's in-game items and premium features are consumable virtual items and consumed immediately upon purchase using in-game virtual currency. Therefore, for the purpose of revenue recognition, the related online game revenue is recognised based on the actual consumption of the virtual currency. The rest of the Group's in-game items and premium features are consumed over a certain period after purchase. The related online game revenue is recognised upon the actual consumption of these virtual items.

Income received in respect of unutilised virtual currency and unconsumed virtual items are recognised as deferred revenue. As to the amount of deferred revenue in respect of unutilised virtual currency, management's estimation is required in determining the average sales value of the unutilised virtual currencies because besides virtual currencies sold to players, there are a number of virtual currencies that were granted to players free of charge after players complete certain tasks within the games. In assessing the amount of average sales value for the virtual currency, management considers the weighted average sales value of both virtual currencies sold and virtual currencies granted for free. As to the amount of deferred revenue in respect of unconsumed virtual items, management estimates the average sales value of each unconsumed virtual item by multiplying the number of virtual currency required for the purchase of the virtual item by the above estimated average sales value of the virtual currency.

### 4. OPERATING SEGMENT INFORMATION

#### Information about geographical areas

Since over 90% of the Group's revenue and operating profit were generated from the provision of online game services in Mainland China and all of the Group's identifiable assets and liabilities were located in Mainland China, no geographical segment information in accordance with IFRS 8 Operating Segments is presented.

#### Information about major customers

No revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue for the years ended 31 December 2015 and 31 December 2014.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the services rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

An analysis of revenue, other income and gains is as follows:

<b>Revenue</b>	<b>2015 RMB'000</b>	2014 RMB'000
Online web and mobile games	<b>281,069</b>	268,103
Single-player mobile games	<b>21,209</b>	48,789
Game operation	<b>302,278</b>	316,892
– Gross basis	<b>17,619</b>	60,679
– Net basis	<b>284,659</b>	256,213
Online game distribution	<b>1,442</b>	2,246
Licensing income	<b>5,156</b>	2,697
Advertising revenue	<b>12,873</b>	16,802
Technical service income	<b>398</b>	434
	<b>322,147</b>	339,071
	<b>2015 RMB'000</b>	2014 RMB'000
<b>Other income</b>		
Government grants	<b>11,697</b>	1,483
Interest income	<b>16,698</b>	298
	<b>28,395</b>	1,781
<b>Gains</b>		
Fair value gains, net:		
Available-for-sale investments (transfer from equity on disposal)	<b>7,748</b>	1,961
Gain on fair value change of contingent consideration (note 32)	<b>7,415</b>	–
Disposal of 737 Platform	<b>–</b>	2,000
Gain on disposal of items of property, plant and equipment	<b>72</b>	25
Gain on disposal of an associate	<b>–</b>	506
Others	<b>829</b>	–
	<b>16,064</b>	4,492
	<b>44,459</b>	6,273

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2015 RMB'000	2014 RMB'000
Research and development costs	114,820	57,783
Channel costs	4,963	17,795
Rental fee (including servers)	8,733	6,515
Depreciation	5,853	4,487
Amortisation	21,300	21,625
Advertising expenses	8,883	13,308
Auditors' remuneration	2,600	1,900
Listing expense	-	33,058
Employee benefit expenses (excluding directors' and chief executive's remuneration)		
Salaries and wages	77,620	52,755
Pension scheme contributions	9,745	4,939
Share-based payment expenses	84,208	14,168
	<b>171,573</b>	71,862

### 7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank loan	523	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	<b>Group</b>	
	<b>2015</b>	2014
	<b>RMB'000</b>	RMB'000
Fees	<b>3,142</b>	1,242
Other emoluments:		
Salaries, allowances and benefits in kind	<b>2,678</b>	2,724
Performance related bonuses	<b>549</b>	800
Pension scheme contributions	<b>248</b>	201
	<b>6,617</b>	4,967

**(a) Independent non-executive directors**

The fees paid to the independent non-executive directors during the year were as follows:

	<b>2015</b>	2014
	<b>RMB'000</b>	RMB'000
Mr. Lai Xiaoling	<b>251</b>	20
Ms. Liu Qianli	<b>251</b>	20
Mr. Ma Suen Yee Andrew	<b>252</b>	20
	<b>754</b>	60

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 8. DIRECTORS' REMUNERATION (Continued)

#### (b) Executive directors

	Fees RMB'000	Salaries, allowance and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>2015</b>					
<b>Executive directors</b>					
Mr. Yao Jianjun ( <i>chief executive</i> )	398	420	35	42	895
Mr. Bi Lin	398	682	56	46	1,182
Mr. Sun Zhiyan	398	362	30	38	828
Mr. Chen Jianyu	398	362	30	38	828
Mr. Lin Zhibin	398	421	13	42	874
Mr. Lin Jiabin	398	431	385	42	1,256
	<b>2,388</b>	<b>2,678</b>	<b>549</b>	<b>248</b>	<b>5,863</b>

	Fees RMB'000	Salaries, allowance and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
<b>2014</b>					
<b>Executive directors</b>					
Mr. Yao Jianjun ( <i>chief executive</i> )	197	384	141	40	762
Mr. Bi Lin	197	536	101	31	865
Mr. Sun Zhiyan	197	360	156	34	747
Mr. Chen Jianyu	197	360	156	34	747
Mr. Lin Zhibin	197	541	141	40	919
Mr. Lin Jiabin	197	543	105	22	867
	<b>1,182</b>	<b>2,724</b>	<b>800</b>	<b>201</b>	<b>4,907</b>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals for the year ended 31 December 2015 are all non-director employees (2014: five non-director employees). Details of their remuneration for the year ended 31 December 2015 (2014: five) are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	3,061	3,237
Performance related bonuses	4,491	1,078
Equity-settled share-based payment expenses*	49,256	8,616
Pension scheme contributions	204	124
	<b>57,012</b>	<b>13,055</b>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$5,000,000	1	5
HK\$5,000,001 to HK\$8,000,000	1	–
HK\$8,000,001 to HK\$12,000,000	1	–
HK\$12,000,001 to HK\$17,000,000	1	–
HK\$17,000,001 to HK\$30,000,000	1	–
	<b>5</b>	<b>5</b>

\* The amount included certain shares transferred to a member of senior management in a subsidiary of the Company by a shareholder as a reward for the member's services to the Group. The reward cost was measured at the fair value of the granted shares and expensed to the statement of profit or loss as senior management's remuneration as disclosed in note 26.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 10. INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Guanghuan, Xiamen Youli, Xiamen Yidou, and Kailuo Tianxia, which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2011, 2013, 2013 and 2014 are the first profitable years for Xiamen Guanghuan, Xiamen Youli, Kailuo Tianxia and Xiamen Yidou, respectively.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2015, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB176,671,000 at 31 December 2015 (2014: RMB118,656,000).

	<b>2015</b> <b>RMB'000</b>	2014 RMB'000
Current tax	<b>9,145</b>	5,906
Deferred tax (note 17)	<b>(4,403)</b>	227
Total tax charge for the year	<b>4,742</b>	6,133

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 10. INCOME TAX EXPENSE (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2015 RMB'000	2014 RMB'000
Profit before tax	99,730	148,501
Tax at the applicable tax rate	20,944	37,125
Lower tax rates enacted by local authorities	(45,450)	(42,134)
Expenses not deductible for tax	22,012	11,199
Additional deduction for research and development expenses	(4,189)	(1,187)
Tax losses utilised from previous years	(116)	(541)
Deferred tax assets not recognised	11,541	1,671
Tax charge	4,742	6,133

### 11. DIVIDENDS

	2015 RMB'000
Interim – HK2 cents (2014: Nil) per ordinary share	25,436
Special – HK3 cents (2014: Nil) per ordinary share	38,155
	63,591

The proposed final dividend for the year is HK3 cents per ordinary share for the register of members of the Company on 26 May 2016, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,524,984,723 (2014: 1,046,884,732) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings per share are based on:

	2015 RMB'000	2014 RMB'000
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	65,882	117,885
Gain on fair value change of contingent consideration	(7,415)	–
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation:	58,467	117,885
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,524,984,723	1,046,884,732
Effect of dilution – weighted average number of ordinary shares:		
Share options and RSU shares	53,837,223	2,832,743
Shares to be issued relating to acquisition of non-controlling interests in Xiamen Yidou and Xiamen Zhangxin (note 32)	30,793,151	–
	1,609,615,097	1,049,717,475

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
<b>31 December 2015</b>				
At 31 December 2014 and at 1 January 2015:				
Cost	7,761	6,747	8,911	23,419
Accumulated depreciation	(3,741)	(3,727)	(1,503)	(8,971)
Net carrying amount	4,020	3,020	7,408	14,448
At 1 January 2015, net of accumulated depreciation	4,020	3,020	7,408	14,448
Additions	2,599	3,252	4,250	10,101
Acquisition of a subsidiary (note 28)	77	–	–	77
Disposals	–	(266)	–	(266)
Liquidation of a subsidiary	(27)	–	–	(27)
Depreciation provided during the year	(2,126)	(1,777)	(1,950)	(5,853)
At 31 December 2015, net of accumulated depreciation	4,543	4,229	9,708	18,480
At 31 December 2015:				
Cost	10,304	9,360	13,161	32,825
Accumulated depreciation	(5,761)	(5,131)	(3,453)	(14,345)
Net carrying amount	4,543	4,229	9,708	18,480

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
<b>31 December 2014</b>				
At 31 December 2013 and at 1 January 2014:				
Cost	4,776	6,723	1,338	12,837
Accumulated depreciation	(1,876)	(2,053)	(743)	(4,672)
Net carrying amount	2,900	4,670	595	8,165
At 1 January 2014, net of accumulated depreciation	2,900	4,670	595	8,165
Additions	3,057	372	7,590	11,019
Acquisition of a subsidiary	52	–	–	52
Disposals	(5)	(217)	(9)	(231)
Disposal of a subsidiary	(70)	–	–	(70)
Depreciation provided during the year	(1,914)	(1,805)	(768)	(4,487)
At 31 December 2014, net of accumulated depreciation	4,020	3,020	7,408	14,448
At 31 December 2014:				
Cost	7,761	6,747	8,911	23,419
Accumulated depreciation	(3,741)	(3,727)	(1,503)	(8,971)
Net carrying amount	4,020	3,020	7,408	14,448

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 14. GOODWILL

	2015 RMB'000	2014 RMB'000
Cost at 1 January	408,619	407,262
Acquisition of subsidiaries	938	1,357
Cost and net carrying amount	409,557	408,619

#### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Casual Games
- Other Games

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 20% (2014: 20%). The growth rate used to extrapolate the cash flows of the casual games beyond the five-year period is 3%, which is the same as the long term growth rate of the industry. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2015 RMB'000	2014 RMB'000
Casual Games	406,473	406,473
Other Games	3,084	2,146
Carrying amount of goodwill	409,557	408,619

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 14. GOODWILL (Continued)

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2015 and 31 December 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

**Budgeted income** – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in game life cycle and the Group’s strategy in operation. The income growth rates during the five-year period range from 4% to 142%. The Company believes this budgeted income is justified given the strong game development capability and experience of casual games, the corporation with major third-party distribution platforms and the successful record of developing its Carrot Fantasy Series.

In the opinion of the Company’s directors, a decrease in the budgeted income by 10% before discounting during the five-year period would cause the carrying amount of the cash-generating unit to exceeds its recoverable amount, and any reasonably possible change in other key assumptions on which the recoverable amount is based would not cause the cash-generating unit’s carrying amount to exceed its recoverable amount.

**Discount rates** – The discount rates used are before tax and reflect specific risks relating to the cash-generating unit.

### 15. OTHER INTANGIBLE ASSETS

	<b>Software</b> RMB'000	<b>Game intellectual properties and licences</b> RMB'000	<b>Total</b> RMB'000
<b>31 December 2015</b>			
Cost at 1 January 2015, net of accumulated amortisation	1,647	54,151	55,798
Additions	2,019	–	2,019
Amortisation provided during the year	(816)	(20,484)	(21,300)
At 31 December 2015	2,850	33,667	36,517
At 31 December 2015:			
Cost	6,041	74,636	80,677
Accumulated amortisation	(3,191)	(40,969)	(44,160)
Net carrying amount	2,850	33,667	36,517

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

	<b>Software</b> RMB'000	<b>Game intellectual properties and licences</b> RMB'000	<b>Total</b> RMB'000
<b>31 December 2014</b>			
At 1 January 2014:			
Cost	2,309	74,636	76,945
Accumulated amortisation	(1,235)	–	(1,235)
Net carrying amount	1,074	74,636	75,710
Cost at 1 January 2014, net of accumulated amortisation	1,074	74,636	75,710
Additions	1,713	–	1,713
Amortisation provided during the year	(1,140)	(20,485)	(21,625)
At 31 December 2014	1,647	54,151	55,798
At 31 December 2014 and at 1 January 2015:			
Cost	4,022	74,636	78,658
Accumulated amortisation	(2,375)	(20,485)	(22,860)
Net carrying amount	1,647	54,151	55,798



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 16. INVESTMENTS IN ASSOCIATES

	2015 RMB'000
Share of net assets	1,751
Goodwill on acquisition	14,950
	<b>16,701</b>

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2015 RMB'000
Share of the associates' loss for the year	(1,299)
Aggregate carrying amount of the Group's investments in the associates	<b>16,701</b>

### 17. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

#### Deferred tax assets

	Advertisement expense RMB'000	Deferred revenue RMB'000	Accruals RMB'000	Losses available for offsetting against future taxable income RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 1 January 2014	–	1,155	474	–	–	1,629
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	(211)	(16)	–	–	(227)
At 31 December 2014	–	944	458	–	–	1,402
At 1 January 2015	–	944	458	–	–	1,402
Deferred tax credited to the statement of profit or loss during the year (note 10)	50	682	803	299	8	1,842
At 31 December 2015	50	1,626	1,261	299	8	3,244

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 17. DEFERRED TAX (Continued)

#### Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of tax losses of RMB70,937,000 as at 31 December 2015 (2014: RMB7,543,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

#### Deferred tax liabilities

	<b>Value appreciation of intangible assets during acquisition of Kailuo Tianxia</b>
	RMB'000
At 1 January 2014	6,769
Deferred tax charged to the statement of profit or loss during the year (note 10)	–
At 31 December 2014	6,769
At 1 January 2015	6,769
Deferred tax credited to the statement of profit or loss during the year (note 10)	(2,561)
At 31 December 2015	4,208

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB176,671,000 as at 31 December 2015 (2014: RMB118,656,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 18. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

	2015 RMB'000	2014 RMB'000
Accounts receivable from advertising customers	3,280	3,062
Receivables due from third-party game distribution platforms and payment channels	50,197	118,370
	<b>53,477</b>	121,432

The Group's credit terms with its advertising customers are generally two months. The Group's credit terms with the third-party game distribution platforms and payment channels generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancement over its receivable balances. These receivables are non-interest-bearing.

An aged analysis of the receivables as at the end of the year based on the invoice date, is as follows:

#### Accounts receivable from advertising customers

	2015 RMB'000	2014 RMB'000
Within 3 months	3,280	3,062

#### Receivables due from third-party game distribution platforms and payment channels

	2015 RMB'000	2014 RMB'000
Within 3 months	50,197	118,370

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 18. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS (Continued)

The aged analysis of the receivables that are not considered to be impaired is as follows:

#### Accounts receivable from advertising customers

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	3,280	3,062

#### Receivables due from third-party game distribution platforms and payment channels

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	50,197	118,370

All of the receivables that were neither past due nor impaired mainly relate to a large number of diversified customers for whom there was no recent history of default.

### 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Deposit in an account in a domestic securities company*	–	43,729
Prepayments	2,962	1,809
Deposits	1,738	1,047
Other receivables	2,071	4,890
	6,771	51,475

\* The deposit balance as at 31 December 2014 stood for the balance in the account of the Group in a domestic securities company, which can be further used to purchase financial products through the securities company upon the instructions of the Group. The deposit has no restriction and can be withdrawn at the discretion of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 20. AVAILABLE-FOR-SALE INVESTMENTS AND SHORT TERM INVESTMENT

		2015 RMB'000	2014 RMB'000
Structured financial product	(1)	20,108	–
<b>Total short term investment</b>		<b>20,108</b>	–

(1) The short term investment was a structured financial product issued by an asset management company with a fixed interest rate at 4.5% per annum and a maturity period of 90 days in the PRC. The principal is protected.

		2015 RMB'000	2014 RMB'000
Structured financial product	(2)	20,070	28,235
<b>Total current available-for-sale investment</b>		<b>20,070</b>	28,235
Straight bonds	(3)	95,471	–
Convertible bonds	(4)	61,127	–
Convertible preferred shares	(5)	35,053	–
Investment in life insurance policies	(6)	83,107	–
<b>Total non-current available-for-sale investments</b>		<b>274,758</b>	–

(2) The current available-for-sale investment was a structured financial product issued by an asset management company with an expected interest rate at 5% per annum and a maturity period of 191 days in the PRC. The principal is not protected.

(3) On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US\$5,000,000 at a consideration of US\$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. The bond is traded on the Stock Exchange of Hong Kong Limited. In April and July 2015, the Group invested in a bond issued by Sparkle Assets Limited with a nominal amount of US\$9,200,000 at a consideration of US\$9,679,000 (equivalent to approximately RMB59.3 million). The bond has a coupon interest rate of 6.875% per annum with a maturity period of 7 years. The bond is traded on the Singapore Exchange Securities Trading Limited. The Group has no intention to sell them for trading purposes or hold them till maturity and therefore classified them as available-for-sale investments and stated them at fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 20. AVAILABLE-FOR-SALE INVESTMENTS AND SHORT TERM INVESTMENT (Continued)

- (4) On 4 June 2015, the Group invested in a perpetual convertible bond issued by HSBC Holdings PLC with a nominal amount of US\$2,000,000 and a coupon interest rate of 5.625% per annum, at a consideration of US\$2,035,000 (equivalent to approximately RMB12.4 million). The convertible bond is traded on the Irish Stock Exchange. On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US\$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US\$8,101,000 (equivalent to approximately RMB49.7 million). The convertible bond is traded on the Stock Exchange of Hong Kong Limited. The coupon interest can be cancelled any time at the issuers' sole discretion. The two convertible bonds shall be converted into ordinary shares of the issuers if the issuers failed to meet certain covenants. The Group has no intention to sell these bonds for trading purposes and classified them as available-for-sale investments and stated them at fair value.
- (5) On 18 February 2015, the Group invested in convertible preferred shares issued by Industrial and Commercial Bank of China Limited with a nominal amount of US\$5,000,000 at a consideration of US\$5,225,000 (equivalent to approximately RMB32.0 million). The convertible preferred shares have a non-cumulative dividend of 6% per annum. The convertible preferred shares are traded on the Stock Exchange of Hong Kong Limited. The declaration of dividend is at the issuer's sole discretion. The convertible preferred shares shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants. The Group is not entitled to any voting right by holding such convertible preferred shares unless the dividend has not been paid in full for the most recent two dividend periods or a total of three dividend payments have not been paid in full. The Group has no intention to sell the convertible preferred shares for trading purposes and classified them as available-for-sale investments and stated them at fair value.
- (6) In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. Under these policies, the beneficiary and policy holder is the Company. The Company has paid out the total insurance premium with an aggregate amount of approximately US\$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. The Company can terminate the policy at any time and receive back based on the cash value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Cash Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Cash Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

As at 31 December 2015, the insurance premium was pledged to a bank to secure short term advance facility granted to the Group (note 23).

During the year, the net loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB10,906,000 (2014: net gain RMB2,142,000). In the meantime, profit of RMB7,748,000 (2014: RMB1,961,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 21. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	332,523	545,511
Time deposits	131,374	–
Cash and cash equivalents	463,897	545,511
Denominated in HK\$	20,045	472,504
Denominated in RMB	432,633	71,629
Denominated in US\$	11,219	1,378
Cash and cash equivalents	463,897	545,511

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

### 22. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Salaries and welfare payables	34,029	26,523
Other payables and accruals	9,917	14,717
Other tax payables	2,878	7,410
Advance from customers	4,422	1,405
Payables for contingent consideration (note 32)	136,629	–
	187,875	50,055

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 23. INTEREST-BEARING BANK BORROWING

	2015		
	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>			
Short term loan facility – secured	1.651%	Monthly renewable	51,129
			<b>2015 RMB'000</b>
Analysed into:			
Short term loan facility:			
Within one year or on demand			<b>51,129</b>

Notes:

- (a) The Group's short term loan facility amounted to US\$40,000,000 (2014: Nil), of which US\$7,874,000 (equivalent to approximately RMB51.1 million) (2014: Nil) had been drawn as at the end of the reporting period, and is secured by the Group's investment in the insurance premium (note 20). The period of the loan is one month and renewable on a monthly basis.
- (b) The borrowing is in United States dollars.

### 24. DEFERRED REVENUE

Deferred revenue mainly represents service fees prepaid by game players or licensees for online game services to which related services have not been rendered as at the end of the year.

### 25. SHARE CAPITAL

#### Shares

	2015	2014
Issued and fully paid or credited as fully paid:		
Ordinary shares of US\$0.0000001 each	<b>1,541,032,500</b>	1,506,463,500
Equivalent to RMB'000	<b>1</b>	1



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 25. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issue of shares	100,000	1	(1)	–
Issue and subdivision of shares	1,199,900,000	–	–	–
Issue of shares	300,000,000	–	522,589	522,589
Issue of shares under the over-allotment option	6,463,500	–	11,222	11,222
Share issue expenses	–	–	(35,776)	(35,776)
At 31 December 2014	1,506,463,500	1	498,034	498,035
RSU exercised	13,850,000	–	21,168	21,168
Share options exercised	717,000	–	1,133	1,133
Issue of shares (note 32)	29,500,000	–	48,006	48,006
Repurchase of shares (a)	(9,498,000)	–	(14,699)	(14,699)
2015 interim and special dividends	–	–	(63,591)	(63,591)
At 31 December 2015	1,541,032,500	1	490,051	490,052

(a) Repurchase of shares

The Company purchased 12,696,000 of its shares on the Hong Kong Stock Exchange for a total consideration of RMB19,789,000, of which 9,498,000 shares were cancelled afterwards. The remaining 3,198,000 shares of RMB5,990,000 were recorded as treasury shares in the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 26. EQUITY-SETTLED SHARE-BASED PAYMENT

#### (1) Share option schemes

The Company approved and adopted a pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) and a post-IPO share option scheme (the “Post-IPO Share Option Scheme”, together as the “Schemes”) pursuant to shareholders’ written resolutions and directors’ written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who have contributed or will contribute to the Group in the absolute discretion of the Board.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK\$0.55. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently will expire on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 10 June 2015, under the Post-IPO Share Option Scheme, share options were granted to one member of senior management to subscribe for 3,000,000 shares at an exercise price of HK\$3.93 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 10 June 2016, 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 9 June 2025.

The following share options were outstanding under the Schemes during the year:

	2015		2014	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	0.55	104,520	–	–
Granted during the year	3.93	3,000	0.55	105,570
Forfeited during the year	0.55	(4,550)	0.55	(1,050)
Exercised during the year	0.55	(717)	–	–
At 31 December	0.65	102,253	0.55	104,520

The weighted average share price at the date of exercise for share options exercised during the year was HK\$1.87 per share (2014: No share options were exercised).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 26. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

#### (1) Share option schemes (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2015 Number of options '000	Exercise price* HK\$ per share	Exercise period
99,253	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
102,253		
2014 Number of options '000	Exercise price* HK\$ per share	Exercise period
104,520	0.55	31-12-2015 to 05-12-2019

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was approximately RMB4,990,000 (2014: RMB104,980,000), of which the Group recognised a share option expense of RMB1,436,000 during the year ended 31 December 2015.

The fair value of the share options granted during the year was estimated at the date of grant, 10 June 2015, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists out inputs used in the model:

	2015	2014
Dividend yield (%)	–	–
Expected volatility (%)	52.6	46
Risk-free interest rate (%)	2.5	1.65
Expected life of options (year)	10	5
Share price (HK\$ per share)	2.11	1.93

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 26. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

#### (1) Share option schemes (Continued)

The 717,000 share options exercised during the year resulted in the issue of 717,000 ordinary shares of the Company and share premium of RMB1,133,000 (before issue expense), as further detailed in note 25 to the financial statements.

At the end of the reporting period, the Company had 102,253,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 102,253,000 additional ordinary shares of the Company, an additional share capital of approximately RMB66 and a share premium of approximately RMB55,622,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 86,594,500 share options outstanding under the Schemes, which represented the 5.63% of the Company's shares in issue as at that date.

The Group recognised total share option expenses of RMB49,747,000 for the year ended 31 December 2015 (2014: RMB7,112,000).

#### (2) Restricted Share Unit ("RSU") Plan

The Company approved and adopted a pre-IPO restricted share unit plan ("Pre-IPO RSU Plan") on 17 November 2014 for the purpose of rewarding eligible participants for their contribution to the Group. Eligible participants of the Pre-IPO RSU Plan include full-time employees, officers or suppliers, customers, consultants, agents or advisers of the Group, and any other person who, in the sole opinion of the Board, has contributed or will contribute to the Group. The total number of ordinary shares underlying awards made pursuant to the Pre-IPO RSU Plan is 13,850,000. On 17 November 2014, RSUs to subscribe for 13,850,000 shares were granted to 2 members of senior management and 7 employees.

All of the 13,850,000 RSUs granted were vested on 1 April 2015, resulting in the issue of 13,850,000 ordinary shares of the Company and share premium of RMB21,168,000.

The Group recognised total RSU expenses of RMB14,112,000 for the year ended 31 December 2015 (2014: RMB7,056,000).

#### (3) Award of ordinary shares

One shareholder transferred certain ordinary shares to a member of senior management in a subsidiary as a reward for the member's services to the Group. The reward cost was measured at the fair value of the shares amounted to RMB20,349,000 and expensed to the consolidated statement of profit or loss as senior management's remuneration.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 27. RESERVES

#### Statutory reserve

Pursuant to the relevant PRC rules and regulations and Articles of Association, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

### 28. BUSINESS COMBINATIONS

On 4 May 2015, the Group acquired 60% of the equity interest of Shenzhen Tianxia Jiayou Technology Co., Ltd. ("Tianxia Jiayou"), a limited liability company incorporated in Guangdong Province, PRC that specialises in the development of its own games, along with receivables from Tianxia Jiayou of RMB3,500,000 for a consideration of RMB1,500,000. The fair value of the identifiable assets and liabilities of Tianxia Jiayou and the receivables from Tianxia Jiayou as at the date of acquisition were:

	Note	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	77
Cash and bank balances		468
Prepayments, deposits and other receivables		108
Accruals and other payables		(5,550)
Non-controlling interests		1,959
Total identifiable net assets at fair value		(2,938)
Other receivables from Tianxia Jiayou		3,500
		562
Goodwill on acquisition		938
Consideration:		
Satisfied by cash in July 2015		1,500

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(1,500)
Cash and bank balances acquired	468
Net outflow of cash and cash equivalents included in cash flows from investing activities	(1,032)

Since the acquisition, Tianxia Jiayou contributed zero to the Group's revenue and loss of RMB2,355,000 to the consolidated profit for the year ended 31 December 2015.

Had the combination taken place at the beginning of the year, the revenue and profit of the Group for the year would have been RMB322,147,000 and RMB94,040,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### Major non-cash transactions

During the year, the Group entered into a share transfer agreement in respect of acquisition of non-controlling interests in Xiamen Yidou and Xiamen Zhangxin by issuing a maximum of 118,000,000 shares. Further details are given in note 32.

### 30. OPERATING LEASE ARRANGEMENTS

#### Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

*As lessee*

	2015 RMB'000	2014 RMB'000
Within one year	6,040	4,287
In the second to third years, inclusive	8,455	6,403
In the fourth to fifth years	3,540	6,305
	<b>18,035</b>	16,995

### 31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the reporting period:

	2015 RMB'000
Contracted, but not provided for: Capital contributions in respect of an associate	<b>3,000</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 32. RELATED PARTY TRANSACTIONS

#### (a) Name and relationship of related parties

Name	Relationship
Fine Point	Controlled by one member of senior management of the Group
Xiamen Xianglian Technology Co., Ltd. ("Xiamen Xianglian")	Controlled by Mr. Yao Jianjun

#### (b) Transactions with related parties

The following transactions were carried out with related parties:

	2015 Number of shares '000	2014 Number of shares '000
Shares issued (note (i))		
Fine Point	29,500	–

	2015 RMB'000	2014 RMB'000
Technology service fee (note (ii))		
Xiamen Xianglian	–	32

Notes:

- (i) The Group entered into a share transfer agreement to acquire the non-controlling interests in Xiamen Yidou and Xiamen Zhangxin from Fine Point through allotting and issuing a maximum of 118,000,000 shares to Fine Point. The maximum of 118,000,000 shares will be allotted and issued in four tranches which will be adjusted based on the financial results of Xiamen Yidou and Xiamen Zhangxin in the future years. Based on the share transfer agreement, upon completion of the acquisition of the non-controlling interests, the first tranche 29,500,000 shares were issued at an issue price of HK\$1.97 per share and listed on the Hong Kong Stock Exchange on 26 August 2015. The second tranche 29,500,000 shares are expected to be issued to Fine Point in March 2016 based on the financial results of 2015. The fair value of the ordinary shares not yet issued was recorded in other payables as contingent consideration with changes in fair value recorded in the consolidated statement of profit or loss.
- (ii) Xiamen Xianglian provides technology service and online advertising service to the Group. The prices are mutually agreed after taking into account the prevailing market prices.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 32. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties:

	2015 Number of shares '000	2015 Amount RMB'000
Due to shareholders Fine Point	88,500	136,629

(d) Compensation of key management personnel of the Group:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	3,425	2,865
Performance related bonuses	4,404	864
Equity-settled share-based payment expenses	20,416	5,648
Other share-based payment expenses (note 26)	20,349	–
Pension scheme contributions	238	119
	48,832	9,496

Further details of directors' emoluments are included in note 8 to the financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year were as follows:

#### Financial assets

As at 31 December 2015

	Available- for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable	–	3,280	3,280
Receivables due from third-party game distribution platforms and payment channels	–	50,197	50,197
Financial assets included in prepayments, deposits and other receivables	–	6,019	6,019
Available-for-sale investments	294,828	–	294,828
Cash and cash equivalents	–	463,897	463,897
Short term investment	–	20,108	20,108
	<b>294,828</b>	<b>543,501</b>	<b>838,329</b>

As at 31 December 2014

	Available- for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable	–	3,062	3,062
Receivables due from third-party game distribution platforms and payment channels	–	118,370	118,370
Financial assets included in prepayments, deposits and other receivables	–	50,065	50,065
Available-for-sale investments	28,235	–	28,235
Cash and cash equivalents	–	545,511	545,511
	<b>28,235</b>	<b>717,008</b>	<b>745,243</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

#### Financial liabilities

	Financial liabilities at amortised cost	
	2015 RMB'000	2014 RMB'000
Financial liabilities included in other payables and accruals	7,532	14,717
Interest-bearing bank borrowing (note 23)	51,129	–
	58,661	14,717

### 34. FAIR VALUE AND FAIR VALUE HIERARCHY

Management has assessed that the fair values of cash and cash equivalents, accounts receivable, receivables due from third-party game distribution platforms and payment channels, financial assets included in prepayments, deposits and other receivables, amounts due from related parties and financial liabilities included in other payables, interest-bearing bank borrowing and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of available-for-sale investments have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the year.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors once a year for annual financial reporting.

#### Fair value measurement as at 31 December 2015 using

	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Available-for-sale investments	–	294,828	–	294,828

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 34. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

	Fair value measurement as at 31 December 2014 using			Total RMB'000
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Recurring fair value measurement for:				
Available-for-sale investments	–	28,235	–	28,235

During the year ended 31 December 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and receivables due from third-party game distribution platforms and payment channels, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit term are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, short term investments and other receivables, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 51% (2014: 86%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

#### Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows and maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

#### Group

	2015					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Less than 1 year RMB'000	Over 5 years RMB'000	
Interest-bearing bank borrowing	-	51,129	-	-	-	51,129
Other payables	7,532	-	-	-	-	7,532
	7,532	51,129	-	-	-	58,661

	2014					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Less than 1 year RMB'000	Over 5 years RMB'000	
Other payables	14,717	-	-	-	-	14,717

#### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	2015 RMB'000	2014 RMB'000
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries		296,034	14,168
Available-for-sale investments		274,758	–
Total non-current assets		570,792	14,168
<b>CURRENT ASSETS</b>			
Due from subsidiaries		25,740	24,252
Prepayments, deposits and other receivables		676	–
Cash and cash equivalents		157,489	458,202
Total current assets		183,905	482,454
<b>CURRENT LIABILITIES</b>			
Due to subsidiaries		16,212	7,649
Other payables and accruals		137,631	7,138
Interest-bearing bank borrowing		51,129	–
Total current liabilities		204,972	14,787
<b>NET CURRENT ASSETS</b>		<b>(21,067)</b>	467,667
<b>NET ASSETS</b>		<b>549,725</b>	481,835
<b>EQUITY</b>			
Share capital	25	1	1
Share premium	25	490,051	498,034
Treasury shares		(5,090)	–
Reserves (note)		64,763	(16,200)
<b>Total equity</b>		<b>549,725</b>	481,835

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

### 36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Equity-settled share-based payment reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Total comprehensive income for the year	-	-	(1,734)	(28,634)	(30,368)
Equity-settled share-based payment expenses	14,168	-	-	-	14,168
At 31 December 2014	14,168	-	(1,734)	(28,634)	(16,200)
Total comprehensive income for the year	-	(18,488)	17,601	19,613	18,726
Equity-settled share-based payment expenses	84,208	-	-	-	84,208
Exercise of options	(21,971)	-	-	-	(21,971)
At 31 December 2015	76,405	(18,488)	15,867	(9,021)	64,763

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 24 March 2016.

## DEFINITION

“AGM”	the annual meeting of the Company to be held on 20 May 2016
“Android”	an operating system developed and maintained by Google Inc.
“App Annie”	App Annie Inc., an independent application store market data provider
“ARPPU”	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
“Articles of Association” or “Articles”	the articles of association of the Company adopted on 17 November 2014, as amended from time to time
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors” or “our Board”	the board of Directors of the Company
“Cayman Companies Law” or “Companies Law”	the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Islands”	the Cayman Islands
“CG Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Chairman”	the chairman of the Board
“Chief Executive Officer”	the chief executive officer of our Company
“China” or “PRC”	the People’s Republic of China; for the purpose of this annual report, “PRC” does not include Taiwan, the Macau Special Administrative Region of the People’s Republic of China and Hong Kong
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we”, “us”, “our” or “Feiyu”	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014, and, except where the context otherwise requires, all of its subsidiaries and PRC Operating Entities or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries and PRC Operating Entities was engaged in and which was subsequently assumed by it
“Contractual Arrangements”	a series of contractual arrangements entered into by Xiamen Feiyu, the PRC Contractual Entities and the Relevant Shareholders
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. YAO Jianjun, Mr. BI Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited
“Executive Director(s)”	the executive Directors of the Company

## DEFINITION

“Feiyou Guangqu”	Xiamen Guangqu Investment Management Co., Ltd. (廈門光趣投資管理有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 10 November 2014
“Feiyou Guangyu”	Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 10 November 2014
“Feiyu Hong Kong”	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014
“Group”, “our Group” or “the Group”	our Company, its subsidiaries and the PRC Operating Entities (the financial results of which have been consolidated and accounted for as the subsidiaries of the our Company by virtue of the Contractual Arrangements), or where the context so requires, in respect of the period before our Company became the holding company of our current subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be) and the PRC Operating Entities
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IAS(s)”	International Accounting Standards
“IASB”	International Accounting Standards Board
“IFRS(s)”	International Financial Reporting Standards, amendments and interpretations issued by the IASB
“Independent Non-executive Director(s)”	the independent non-executive Director(s) of the Company
“iOS”	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
“IPO”	initial public offering of the Shares on the Main Board of the Stock Exchange
“iResearch”	Shanghai iResearch Co., Ltd, an independent industry consultant
“Kailuo Tianxia”	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited company established under the laws of the PRC on 3 May 2012 and a direct wholly-owned subsidiary of Xiamen Guanghuan since 31 December 2013



## DEFINITION

“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date which dealings in Shares first commence on the Main Board of the Stock Exchange, i.e., 5 December 2014
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“MAU”	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company adopted on 17 November 2014, as amended from time to time
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MPUs”	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
“Nomination Committee”	the nomination committee of the Company
“Pre-IPO RSU Plan”	the pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
“PRC Contractual Entities”	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and “PRC Contractual Entity” means any one of them
“PRC Operating Entities”	Xiamen Guanghuan and its subsidiaries and “PRC Operating Entity” means any one of them
“Prospectus”	the prospectus dated 25 November 2014 issued by the Company
“Relevant Shareholder(s)”	Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, SUN Zhiyan, LIN Jiabin, LIN Zhibin, CAI Wensheng and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC

## DEFINITION

“RPG”	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more “characters” who develop specific skill sets (such as melee combat or casting magic spells) and control the character’s actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
“RSU(s)”	restricted share units or any one of them
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholders”	holder(s) of Shares
“Shares”	ordinary share(s) in the share capital of our Company with nominal value of US\$0.0000001 each
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“US\$”, “U.S. dollars”, “USD” or “United States Dollars”	United States dollars, the lawful currency of the United States of America
“Xiamen Feiyou”	Xiamen Feiyou Information Technology Co., Ltd. (廈門飛游信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014
“Xiamen Guanghuan”	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009. Messrs. YAO Jianjun, BI Lin, LIN Zhibin, LIN Jiabin, CAI Wensheng, SUN Zhiyan, CHEN Jianyu and Ms. CHEN Yongchun hold 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% equity interest of Xiamen Guanghuan, respectively
“Xiamen Yidou”	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012
“Xiamen Youli”	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a direct wholly-owned subsidiary of Xiamen Guanghuan, a limited company established under the laws of the PRC on 19 September 2011
“Xiamen Zhangxin”	Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 27 October 2014

In this annual report, the terms “associate”, “connected person”, “connected transaction” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.