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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board is pleased to announce the unaudited consolidated interim results (the “Interim Results”) of the Group for the six months ended 30 June 2016 together with comparative figures for the corresponding period in 2015.

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six Months Ended 30 June		Change %
	2016	2015	
	(RMB'000)	(RMB'000)	
Revenue (unaudited)	95,252	201,420	(52.7)
Gross profit (unaudited)	71,540	177,851	(59.8)
(Loss)/Profit before tax (unaudited)	(70,152)	97,908	(171.7)
(Loss)/Profit for the period attributable to owners of the parent (unaudited)	(76,455)	63,970	(219.5)
Non-IFRSs Measures			
– Adjusted net profit attributable to owners of the parent (unaudited) ⁽¹⁾	8,789	113,366	(92.2)

(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

– Basic	<u>RMB(0.05)</u>	<u>RMB0.04</u>
– Diluted	<u>Not Applicable</u>	<u>RMB0.04</u>

Note:

- (1) Please refer to the section headed “Non-IFRSs measures – Adjusted net profit attributable to owners of the parent” for definition of adjusted net profit attributable to owners of the parent.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW AND OUTLOOK

Overview

China's online game industry continued to record a strong growth in the first half of 2016. According to the Game Publishers Association Publications Committee (GPC), Gamma Data, and International Data Corporation (IDC), China's online game industry has recorded an increase of 30.1% year-on-year in revenue, amounted to approximately RMB78.8 billion, of which mobile games have contributed RMB37.5 billion, representing a year-over-year growth of 79.1%. In the meantime, a few changes in the online game industry occurring in 2015 have become increasingly obvious since the beginning of 2016: (1) game players prefer games with proven intellectual property ("IP") than entirely new titles; (2) hit games attract massive players as well as their expenditures and have longer lifespan than other titles; (3) intensified market competition drives industry consolidation; and (4) new technology continuously applies to online games and brings the industry with unprecedented opportunities.

Being a leading online game developer and operator in China, we have been committed to providing excellent games to global players with a strategic focus on mobile games. In addition to China's domestic market, we target to further penetrate into new overseas markets through our elaborately developed games with self-owned IPs. These IPs are extremely valuable, not only did they lay a solid foundation for the success of sequels and/or prequels in the future, but also enable us to develop and expand our IP licensing business.

On 22 March 2016, we entered into a license agreement in relation to the cooperation with Qihoo 360 Technology Co., Ltd. ("Qihoo 360") to distribute and publish Shen Xian Dao II (神仙道2) in the Mainland China. In the first quarter of 2016, we entered into an exclusive license agreement with Tencent Holdings Limited ("Tencent") for distributing and publishing Plump Fish (小魚飛飛) in the Mainland China on Tencent platforms for single-player games, including but not limited to Weixin and mobile QQ. In June 2016, we launched Carrot Fantasy III (保衛蘿蔔3) successfully on Tencent platforms, including but not limited to Weixin and mobile QQ. Shortly after the launch of its iOS version on 16 June 2016, Carrot Fantasy III (保衛蘿蔔3) climbed up to No. 1 in Apple's China app store in terms of free download and maintained such position for 17 consecutive days. Besides, we also launched the foreign language version of San Guo Zhi Ren (三國之刃) in Vietnam in the first half of 2016.

We are encouraged by the significant progress that we made in our IP licensing business in the first half of 2016. The plush toy of Carrot Fantasy (保衛蘿蔔), for which we licensed the IP to NICI International Trading (Shanghai) Co., Ltd., a subsidiary of NICI GmbH ("NICI"), which is a Germany-based globally-active producer of high-quality brand name goods, went on sale in NICI stores since April 2016 and has been enjoying great popularity. The Manufacture d'Articles de Précision Et de Dessin ("Maped") stationery licensed with Carrot Fantasy (保衛蘿蔔) have been launched in all Maped's online and offline stores in Mainland China and Hong Kong since June and July 2016 respectively. In addition, the network drama, Jiong Xi You II (囧西游2), which is the sequel to Jiong Xi You (囧西游), a network drama produced under an IP licensing arrangement of one of our popular games of the same name, was clicked for over 200 million times as at 30 June 2016.

On 29 March 2016, Xiamen Guangyu, Kailuo Tianxia and Xiamen Youli, all of which are indirect wholly-owned subsidiaries of the Company (collectively, the “Licensors”) and Xiamen Plump Fish Cultural Media Co., Ltd., a limited liability company established in the PRC and a direct wholly-owned subsidiary of Xiamen Zhangxin as the licensee (the “Licensee”), entered into the Licence Agreement pursuant to which the Licensors have agreed to grant to the Licensee, among other things, an exclusive non-assignable right to use the Licensed Property in designing, producing and distributing the Films. The Licensed Property refers to the copyright and legal rights owned by the Licensors, which own trademarks, images, characters, characteristics, roles, texts, pictures, music, geographical characteristics, visual arts and technical information in relation to Shen Xian Dao (神仙道), Carrot Fantasy (保衛蘿蔔), and Jiong Xi You (囧西游), respectively. In consideration of an exclusive non-assignable right granted by the Licensors to the Licensee pursuant to the Licence Agreement, the Licensee shall pay the Licensors the royalty in the amount equal to 8% of the sales revenue generated by the Films. Please refer to the Company’s announcements dated 29 March 2016 for more details.

Outlook for 2016

We will continue to upgrade and introduce more value-added features to our existing games in the second half of 2016 in order to further enhance player experience and build enduring franchises. We will also make continuous efforts to improve and promote Carrot Fantasy III (保衛蘿蔔3) with our business partner, Tencent, in the second half of 2016. In addition to the Mainland China and Hong Kong, we will also approach international markets cautiously yet aggressively for bringing Carrot Fantasy III (保衛蘿蔔3) to global players. One of our hit titles, San Guo Zhi Ren (三國之刃), is expected to be launched in Singapore, Malaysia and Thailand in the third quarter of 2016.

In the second half of 2016, we will also continue to focus on expanding our established game portfolio through introducing new mobile games, which will include Shen Xian Dao II (神仙道2) and Jiong Xi You II (囧西游2). Besides, the web version of Shen Xian Dao II (神仙道 2) is also expected to be launched in the second half of 2016 under a license agreement entered into between the Group and our business partner, XD.COM (心動網絡股份有限公司).

Along with the popularity of our casual mobile game Carrot Fantasy III (保衛蘿蔔3), we plan to accelerate the expansion of our IP licensing product portfolio. However, we have been very cautious about selecting licensing partners to meet our stringent criteria. On 28 July 2016, we opened our Carrot Fantasy (保衛蘿蔔) store in JD Mall (京東商城) to sell all Carrot Fantasy (保衛蘿蔔) licensing products going forward. We also began to work with Pizza Hut (必勝客) China in August 2016 to cross-promote Carrot Fantasy III (保衛蘿蔔3) and Pizza Hut (必勝客) leveraging the two brands’ extraordinary brand awareness and remarkable customer base.

Interim/Special Dividend

The Board did not declare an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: HK2.0 cents (interim dividend) and HK3.0 cents (special dividend)).

FINANCIAL REVIEW

To focus on providing high-quality games to global players, we maintain a relatively limited product portfolio, in which there are a number of hit titles with our self-owned IP, such as Carrot Fantasy (保衛蘿蔔) series, Shen Xian Dao (神仙道), San Guo Zhi Ren (三國之刃) and Jiong Xi You (囧西游). Our reputable IPs originating from those games have been enjoying large established user base and significant brand recognition, which enables their sequels very competitive in certain product categories. To ensure the success of sequels to these hit titles, we need to invest sufficient development time and resources, which delays the launch of some of our new key games, and as a result, it may have an adverse impact on our financial results in the short term.

Operating Information

As at 30 June 2016, (i) our RPG mobile games and web games had approximately 209.4 million cumulative registered users, with approximately 167.2 million users for web games and approximately 42.2 million users for mobile games; and (ii) our casual mobile games had approximately 356.8 million cumulative activated downloads. For the month of June 2016, (i) our RPG mobile games and web games had 1.5 million MAUs in aggregate, with approximately 0.8 million MAUs for mobile games and approximately 0.7 million MAUs for web games; and (ii) our casual mobile games had approximately 36.5 million MAUs.

The following table set forth certain operating statistics relating to our businesses at the dates and in the periods presented:

	Six Months Ended 30 June		Change %
	2016	2015	
Average MPUs			
Web games (RPGs) (000's)	28	36	(22.2)
Mobile games (RPGs) (000's)	103	308	(66.6)
Casual games (000's)	402	506	(20.6)
ARPPU			
Web games (RPGs) (RMB)	81.8	95.6	(14.4)
Mobile games (RPGs) (RMB)	89.7	85.3	5.2
Casual games (RMB)	4.8	4.5	6.7

Note:

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

The number of our average MPUs for mobile RPG games decreased to approximately 103,000 for the six months ended 30 June 2016 from approximately 308,000 for the six months ended 30 June 2015. This was mainly attributable to the change in lifecycle stage of one of our hit titles, San Guo Zhi Ren (三國之刃), which was in its peak stage in the first half of 2015, while reaching its mature stage in the first half of 2016. Our average MPUs for mobile casual games were approximately 402,000 for the six months ended 30 June 2016, decreasing from approximately 506,000 for the corresponding period of 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. However, such decrease was partly offset by the launch of Carrot Fantasy III (保衛蘿蔔3) in the middle of June 2016. Our MPUs for web games were 28,000 for the six months ended 30 June 2016 as compared to approximately 36,000 for the corresponding period of 2015. The decrease was not only caused by our web games reaching the late stage of their expected life cycle in 2016, but also due to our strategic focus shifted from web games to mobile games since 2013.

Our ARPPU of RPG mobile games increased by 5.2% to RMB89.7 for the six months ended 30 June 2016 as compared to approximately RMB85.3 for the corresponding period of 2015, which was primarily due to the stronger willingness to pay of the loyal games at the mature stage of our RPG mobile games. Our ARPPU of web games was approximately RMB81.8 for the six months ended 30 June 2016, representing a decrease of 14.4% from approximately RMB95.6 for the corresponding period of 2015. The decrease was primarily driven by relatively lower ARPPU at its early stage of the web version of Shen Xian Dao (神仙道), which was newly launched in Vietnam in March 2016. Our ARPPU for casual games increased by 6.7% from RMB4.5 for the six months ended 30 June 2015 to RMB4.8 for the six months ended 30 June 2016. The increase was primarily driven by the launch of Carrot Fantasy III (保衛蘿蔔3) in the middle of June 2016, which was designed with better monetisation features, partly offset by the decrease in ARPPU of Carrot Fantasy I & II (保衛蘿蔔1&2), which were in the late stage of their respective lifecycle.

As part of our business strategy, we shall continue to put efforts in promoting players' in-game purchases, rolling out upgrades frequently to enhance the features of our games and maintain user interest, and launching various in-game promotions and activities. Since the launch of Carrot Fantasy III (保衛蘿蔔3) was in collaboration with Tencent, who has the biggest social platforms in China including QQ and Weixin, and strong online game distribution capabilities, we believe the ARPPU of our casual games will increase substantially going forward.

First Half of 2016 Compared to First Half of 2015

The following table sets forth the income statement for the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

	Six Months Ended 30 June		Change %
	2016 (RMB'000)	2015 (RMB'000)	
Revenue	95,252	201,420	(52.7)
Cost of sales	(23,712)	(23,569)	0.6
Gross profit	71,540	177,851	(59.8)
Other income and gains	17,470	11,269	55.0
Selling and distribution expenses	(5,523)	(11,973)	(53.9)
Administrative expenses	(28,614)	(19,175)	49.2
Research and development costs	(112,848)	(59,779)	88.8
Other expenses	(11,126)	(63)	17,560.3
Financial cost	(456)	–	N/A
Share of losses of an associate	(595)	(222)	168.0
(LOSS)/PROFIT BEFORE TAX	(70,152)	97,908	(171.7)
Income tax expense	(10,787)	(5,643)	91.2
(LOSS)/PROFIT FOR THE PERIOD	(80,939)	92,265	(187.7)
Attributable to:			
Owners of the parent	(76,455)	63,970	(219.5)
Non-controlling interests	(4,484)	28,295	(115.8)

Revenue

The following table sets forth a breakdown of our revenue for the six months ended 30 June 2016 and 2015:

	Six Months Ended 30 June			
	2016		2015	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
Game operation	80,984	85.0	191,857	95.3
Online game distribution	352	0.4	560	0.3
Licensing income	6,968	7.3	2,467	1.2
Advertising revenue	6,948	7.3	6,140	3.0
Technical service income	–	0.0	396	0.2
Total	95,252	100.0	201,420	100.0

Total revenue decreased by approximately 52.7% to approximately RMB95.3 million for the six months ended 30 June 2016 from the corresponding period of 2015. Revenue from game operation decreased by approximately 57.8% to approximately RMB81.0 million for the six months ended 30 June 2016 from the corresponding period of 2015. Such decrease was primarily due to the change in lifecycle stage of one of our hit titles, San Guo Zhi Ren (三國之刃), which was in its peak stage in the first half of 2015, while reaching the mature stage of its expected life cycle in the first half of 2016. The decrease in the revenue of our other existing games also dragged down our total revenue as they reached the mature stage of their respective life cycles. In addition, the decrease was also due to the delay in launching our new key games as a result of the Group's strategic decision to invest additional development time and resources to enhance their quality. As a result, other than Carrot Fantasy III (保衛蘿蔔3), which was launched on 13 June 2016 and had limited contribution to the Group's revenue for the first half of 2016, the Group did not launch other new key game during the six months ended 30 June 2016. Revenue from online game distribution decreased by 37.1% to approximately RMB0.4 million for the six months ended 30 June 2016 from the corresponding period of 2015, which was primarily due to the online games on 737 platforms reaching the late stage of their respective life cycle and our strategic focus on our self-developed games. Licensing income increased by approximately 182.4% to approximately RMB7.0 million for the six months ended 30 June 2016 from the corresponding period of 2015, primarily attributable to the recognition of the licensing fee of Korean version of San Guo Zhi Ren (三國之刃) and the newly launched Carrot Fantasy III (保衛蘿蔔3) in the first half of 2016. In addition, the increase was also attributable to the royalty income of approximately RMB0.4 million derived from the licensing arrangement of our Carrot Fantasy IP between us and Maped, a world leader in school and office supplies based in France. Advertising revenue increased by approximately 13.2% to approximately RMB6.9 million for the six months ended 30 June 2016 from the corresponding period of 2015, primarily due to the video advertisement placed in two of our hit causal games, Carrot Fantasy I & II (保衛蘿蔔1&2) working with Vungle in the first half of 2016, which demonstrated the enthusiasm of players towards the two games even in the late stage of such games' expected lifecycle.

Cost of sales

Our cost of sales was approximately RMB23.7 million for the six months ended 30 June 2016, maintaining relatively flat compared to approximately RMB23.6 million for the corresponding period of 2015. The slight change was primarily due to the increase in salaries and welfare from approximately RMB7.2 million for the six months ended 30 June 2015 to approximately RMB8.8 million for the six months ended 30 June 2016, as a result of the increased number of operation employees and their salaries and welfare. The increase was also due to the recognition of licensing cost which amounted to approximately RMB0.4 million of our overseas game publishing and operating team for the six months ended 30 June 2016 while there was no such expense for the corresponding period of 2015. The increase was partially offset by a decrease in the cost related to the share options granted from approximately RMB3.9 million for the six months ended 30 June 2015 to approximately RMB2.0 million for the six months ended 30 June 2016.

Gross profit and gross profit margin

Based on the foregoing, our gross profit decreased by 59.8% from approximately RMB177.9 million for the six months ended 30 June 2015 to approximately RMB71.5 million for the six months ended 30 June 2016. Our gross profit margin for the six months ended 30 June 2016 was 75.1%, as compared to 88.3% for the six months ended 30 June 2015.

Other income and gains

Our other income and gains increased by approximately 55.0% from approximately RMB11.3 million for the six months ended 30 June 2015 to approximately RMB17.5 million for the six months ended 30 June 2016, primarily due to the recognition of gain on fair value change of contingent consideration which amounted to RMB4.3 million for the six months ended 30 June 2016. The gain on fair value change of the contingent consideration represented the gain on fair value change of the remaining balance of 59,000,000 consideration shares regarding the acquisition of 100% equity interest in Jiaxi Global which are expected to be allotted and issued in 2017 and 2018 as disclosed in the Company's circular dated 27 July 2015. On 31 December 2015, we recognised the remaining balance of the aforesaid consideration shares as a financial liability based on the closing price of Shares on that day, i.e. HKD1.87, and the estimated number of shares to be allotted and issued. Since the closing price of Shares on 30 June 2016 was HKD1.63, there was a decrease in the fair value of financial liability we recognised and a gain on fair value change. The increase was also due to the increase in government grants from approximately RMB3.6 million for the six months ended 30 June 2015 to approximately RMB4.5 million for the six months ended 30 June 2016, which demonstrates the recognition of the Group by the local government. Besides, the increase was also due to the increase in investment income of domestic structured financial products from approximately RMB1.6 million for the six months ended 30 June 2015 to approximately RMB2.5 million for the six months ended 30 June 2016.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 53.9% from approximately RMB12.0 million for the six months ended 30 June 2015 to approximately RMB5.5 million for the six months ended 30 June 2016. The decrease was primarily due to the forfeiture of share options which dragged down the cost related to share options by approximately RMB4.7 million for the six months ended 30 June 2016 as compared with the corresponding period of 2015. The decrease was also attributable to a decrease in Apple's App Store channel fees and advertising cost from approximately RMB2.6 million and RMB3.8 million for the six months ended 30 June 2015 to approximately RMB1.2 million and RMB3.1 million for the six months ended 30 June 2016, respectively, which was because the games distributed and operated by ourselves were in their mature stage and a decreased number of promotion activities occurred in the first half of 2016.

Administrative expenses

Our administrative expenses increased by approximately 49.2% from approximately RMB19.2 million for the six months ended 30 June 2015 to approximately RMB28.6 million for the six months ended 30 June 2016. The increase was primarily attributable to an increase in salaries, pension schemes contribution and welfare from approximately RMB5.9 million for the six months ended 30 June 2015 to approximately RMB15.6 million for the six months ended 30 June 2016, which was mainly driven by the increased number of management staff and administrative employees to support the growth of our business in the long run as well as rolling out pan-entertainment activities based on our self-owned IPs.

Research and development (“R&D”) costs

Our R&D costs increased by approximately 88.8% from RMB59.8 million for the six months ended 30 June 2015 to approximately RMB112.8 million for the six months ended 30 June 2016. This increase was primarily due to a one-off share-based payment of RMB66.2 million recognised for the six months ended 30 June 2016 while there was no such expense for the corresponding period of 2015. The share-based payment was related to the transfer of 42.1 million shares for free from a shareholder to a few key employees who were responsible for the Group’s game development as a reward for their contribution to the Group and the reward cost was measured at the fair value of Shares on the date of the transfer and charged against the consolidated statement of profit or loss as employees’ remuneration. The increase was also due to an increase in salaries, pension schemes contribution and welfare from approximately RMB25.7 million for the six months ended 30 June 2015 to approximately RMB34.1 million for the six months ended 30 June 2016 as a result of the increased number of R&D employees to further enhance our R&D capabilities and enrich our game portfolio. The increase was partially offset by the decrease in the cost related to the share options granted in November 2014 from approximately RMB25.8 million for the six months ended 30 June 2015 to approximately RMB5.7 million for the six months ended 30 June 2016.

Finance costs

Our finance costs of approximately RMB456,000 for the six months ended 30 June 2016 were the interest expenses of the time loan borrowed by the Company in the second half of 2015 as a financial lever for the life insurance policies while there was no such expense for the six months ended 30 June 2015.

Other expenses

Our other expenses increased from approximately RMB0.06 million for the six months ended 30 June 2015 to approximately RMB11.1 million for the six months ended 30 June 2016. The increase was primarily attributable to the recognition of exchange loss for the six months ended 30 June 2016 which amounted to approximately RMB7.5 million due to the depreciation of RMB against USD and HKD. The increase was also due to a provision of investment impairment loss of approximately RMB3.5 million made for the six months ended 30 June 2016 for a minority equity investment in a company which was engaged in design, production and distribution of network dramas.

Income tax expense

Our income tax expense increased by approximately 91.2% from approximately RMB5.6 million for the six months ended 30 June 2015 to approximately RMB10.8 million for the six months ended 30 June 2016. Our effective income tax rate was 5.8% for the six months ended 30 June 2015 while the total income tax expense was approximately RMB10.8 million against to the loss before tax for the six months ended 30 June 2016.

Xiamen Yidou Internet Technology Co., Ltd., a subsidiary of the Company which developed our major RPG mobile games, San Guo Zhi Ren (三國之刃), was exempted from income tax in the first half of 2015 and was taxed at 12.5% in the first half of 2016. The increase of income tax rate in the first half of 2016 compared to the first half of 2015 contributed to the increase in related income tax expense which amounted to RMB4.7 million.

Non-IFRSs measures – Adjusted net profit attributable to owners of the parent

In addition to our interim condensed consolidated financial statements which are presented in accordance with IFRSs, we also provide further information based on the adjusted net profit attributable to owners of the parent 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 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 attributable to owners of the parent as net loss or profit attributable to owners of the parent excluding share-based compensation and amortization of intangible assets recognised for acquisitions. The term of adjusted net profit attributable to owners of the parent is not defined under IFRSs. The use of adjusted net profit attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss or profit attributable to owners of parent for the accounting period.

	Six Months Ended 30 June		Change %
	2016 (RMB'000)	2015 (RMB'000)	
(Loss)/Profit for the period attributable to owners of the parent	(76,455)	63,970	(219.5)
Add:			
Share-based compensation	75,002	39,154	91.6
Amortisation of intangible assets recognised for acquisitions	10,242	10,242	–
Total	8,789	113,366	(92.2)

Financial Position

As at 30 June 2016, total equity of the Group amounted to RMB1,075.4 million, which was flat as compared to RMB1,070.4 million as at 31 December 2015.

The Group's net current assets amounted to approximately RMB329.1 million as at 30 June 2016, as compared to approximately RMB314.5 million as at 31 December 2015. Such increase was primarily due to the decrease in payables for contingent consideration which amounted to approximately RMB53.6 million upon full allotment and issuance of the second tranche consideration shares of 29,500,000 Shares on 31 March 2016 regarding the acquisition of 100% equity interest in Jiaxi Global. Please refer to the Company's announcements dated 31 March 2016, 18 August 2015 and 26 August 2015 and the circular dated 27 July 2015 for more details. The increase was partially offset by the decrease in current assets due to the distribution of the final dividend for the year ended 31 December 2015 in the first half of 2016 amounting to approximately RMB39.7 million.

Liquidity and Financial Resources

	30 June 2016 (RMB'000)	31 December 2015 (RMB'000)	Change %
Cash at bank and on hand	361,908	332,523	8.8
Cash at other financial institutions	6,009	–	N/A
Time deposits	10,815	131,374	(91.8)
Total	378,732	463,897	(18.4)

Our total cash at bank and on hand, cash at other financial institutions and time deposits amounted to approximately RMB378.7 million as at 30 June 2016, as compared to approximately RMB463.9 million as at 31 December 2015. The decrease was primarily due to the distribution of final dividend for the year ended 31 December 2015 in the first half of 2016 which amounted to approximately RMB39.7 million, and the increase in utilisation of our current financial resources for investments after the maturity of time deposit in the six months ended 30 June 2016. Such decrease was partially offset by the increase in cash generated from operating activities during the six months ended 30 June 2016.

As at 30 June 2016, approximately RMB102.6 million of our financial resources (RMB31.3 million as at 31 December 2015) 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 has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities are centralised and cash is generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States dollars.

As at 30 June 2016, we had time loan of approximately US\$7.9 million (31 December 2015: US\$7.9 million) with an interest rate of 1.763% 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 30 June 2016, we had short-term investments and available-for-sale investments of approximately RMB359.2 million (RMB314.9 million as at 31 December 2015). The short-term investments represent the structured financial products issued by banks with fixed interest rates ranging from 3.63% to 3.89% per annum and maturity periods of 60 to 182 days which were invested by the PRC subsidiaries in the PRC. The principals are protected. The current available-for-sale investments represent the structured financial products issued by asset management companies with expected interest rates ranging from 4.2% to 5.3% per annum and maturity periods of 92 to 278 days which were invested by the PRC subsidiaries in the PRC. The principals are 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 ranging from 4.5% to 6.875% per annum which were invested by the Company, the investment in life insurance policies by the Company and 7.5% and 10.127% equity interest held by the Group in two unlisted companies at investment cost of RMB1,500,000 and RMB6,855,000, respectively. 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 the refund 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.

The principal of RMB47.3 million of structured financial products is protected while the principal of the rest are not protected. The fair values of the current available-for-sale financial investments approximately equal 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 16.4% as at 30 June 2016 and 19.3% as at 31 December 2015.

Capital expenditures

The following table sets forth our capital expenditures for the six months ended 30 June 2016 and 2015:

	Six Months Ended 30 June		Change %
	2016 (RMB'000)	2015 (RMB'000)	
Property, plant and equipment	1,042	3,478	(70.0)
Intangible assets	750	2,019	(62.9)
Total	1,792	5,497	(67.4)

Our capital expenditures comprised property, plant and equipment, such as company vehicles for employees' use, and intangible assets, such as software and platform. The total capital expenditures were approximately RMB1.8 million for the six months ended 30 June 2016, representing a decrease of 67.4% as compared to RMB5.5 million for the corresponding period of 2015. The decrease was primarily due to the purchase of a platform amounting to approximately RMB2.0 million in the first half of 2015 while there was no such purchase for the six months ended 30 June 2016. The decrease in the cost related to purchasing company vehicles in the first half of 2016 also contributed to the reduction in capital expenditures.

Significant investments held/future plans for material investments or capital assets

On 21 July 2016, the Group, through Xiamen Youli, successfully bid for the land use rights of a piece of land (the "Land") in Huli District, Xiamen, the PRC at a bidding price of RMB107,000,000 (equivalent to approximately HK\$124,120,000) as disclosed in the announcement dated 21 July 2016. The Land Use Rights Transfer Contract in respect of the Land was entered into on 1 August 2016 and the Group plans to utilise the Land by building our R&D center and headquarters. The total investment amount is expected to be RMB207,000,000 (equivalent to approximately HK\$240,120,000) including the total bidding price of RMB107,000,000 (equivalent to approximately HK\$124,120,000) and the estimated construction cost of approximately RMB100,000,000 (equivalent to approximately HK\$116,000,000). The total investment amount paid/to be paid was/will be satisfied by the Company's internal resources.

Save as the acquisition of the Land as disclosed above in this announcement, the Group currently has no specific plan for significant investment or acquisition of major capital assets or other businesses in the second half of 2016. However, the Group will continue to identify new opportunities for business development.

The Company, through one of its wholly-owned subsidiary, entered into an investment agreement with a PRC game development company (the “Target”) and the existing shareholder(s) of the Target on 31 July 2016 for injection of approximately RMB10.77 million into the Target in order to obtain 26% of the equity interests of the Target, and acquisition of 25% of the equity interests of the Target from the existing shareholder(s) of the Target at an aggregated consideration of approximately RMB6.73 million. Thus, the total investment amount to acquire an aggregate of 51% equity interests of the Target is an aggregate of approximately RMB17.5 million. The acquisition will allow the Group to expand its R&D resources and provide synergy with its existing business.

Significant acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no significant acquisitions and disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2016.

Pledge of Assets

As at 30 June 2016, 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 amounting to US\$12.8 million.

Contingent liabilities and guarantees

As at 30 June 2016, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2016, we had 528 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 30 June 2016:

	Number of Employees	% of Total
Development	331	62.7
Operations	83	15.7
Administration	90	17.0
Sales and marketing	24	4.6
Total	528	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 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.

Use of Net Proceeds from Listing

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 utilise 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.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June

	<i>Notes</i>	2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Unaudited)
REVENUE	4	95,252	201,420
Cost of sales		<u>(23,712)</u>	<u>(23,569)</u>
Gross profit		71,540	177,851
Other income and gains	4	17,470	11,269
Selling and distribution expenses		(5,523)	(11,973)
Administrative expenses		(28,614)	(19,175)
Research and development costs		(112,848)	(59,779)
Finance costs		(456)	–
Other expenses		(11,126)	(63)
Share of losses of associates		<u>(595)</u>	<u>(222)</u>
(LOSS)/PROFIT BEFORE TAX	5	(70,152)	97,908
Income tax expense	6	<u>(10,787)</u>	<u>(5,643)</u>
(LOSS)/PROFIT FOR THE PERIOD		<u>(80,939)</u>	<u>92,265</u>
Attributable to:			
Owners of the parent		(76,455)	63,970
Non-controlling interests		<u>(4,484)</u>	<u>28,295</u>
		<u>(80,939)</u>	<u>92,265</u>
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	7		
– Basic		<u>RMB(0.05)</u>	<u>RMB0.04</u>
– Diluted		<u>Not applicable</u>	<u>RMB0.04</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

	<i>Note</i>	2016 RMB'000 (Unaudited)	2015 <i>RMB'000</i> (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD		<u>(80,939)</u>	<u>92,265</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		6,298	2,362
Reclassification adjustments for gains included in the consolidated statement of profit or loss	4	(2,484)	(1,553)
Exchange differences on translation of foreign operations		<u>1,480</u>	<u>(166)</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		<u>5,294</u>	<u>643</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		<u>5,294</u>	<u>643</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		<u>(75,645)</u>	<u>92,908</u>
Attributable to:			
Owners of the parent		(71,157)	64,613
Non-controlling interests		<u>(4,488)</u>	<u>28,295</u>
		<u>(75,645)</u>	<u>92,908</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		15,647	18,480
Goodwill		409,557	409,557
Other intangible assets		26,172	36,517
Long term receivables		23,965	2,210
Investment in associates		9,603	16,701
Available-for-sale investments	10	286,411	274,758
Deferred tax assets		1,685	3,244
		<hr/>	<hr/>
Total non-current assets		773,040	761,467
CURRENT ASSETS			
Accounts receivable	8	3,426	3,280
Receivables due from third-party game distribution platforms and payment channels	8	46,950	50,197
Prepayments, deposits and other receivables	9	17,106	6,771
Short term investments		47,297	20,108
Available-for-sale investments	10	25,514	20,070
Cash and cash equivalents		372,723	463,897
		<hr/>	<hr/>
Total current assets		513,016	564,323
CURRENT LIABILITIES			
Other payables and accruals		115,151	187,875
Interest-bearing bank borrowing		52,691	51,129
Tax payable		9,744	3,100
Dividends payable		757	–
Deferred revenue		5,527	7,716
		<hr/>	<hr/>
Total current liabilities		183,870	249,820
NET CURRENT ASSETS		<hr/> 329,146	<hr/> 314,503
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,102,186	<hr/> 1,075,970

<i>Notes</i>	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,102,186	1,075,970
NON-CURRENT LIABILITIES		
Deferred tax liabilities	2,928	4,208
Deferred revenue	23,850	1,319
Total non-current liabilities	26,778	5,527
Net assets	1,075,408	1,070,443
EQUITY		
Equity attributable to owners of the parent		
Issued capital	1	1
Share premium	507,377	490,051
Treasury shares	(1,344)	(5,090)
Reserves	572,160	587,951
	1,078,194	1,072,913
Non-controlling interests	(2,786)	(2,470)
Total equity	1,075,408	1,070,443

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE 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.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim financial information for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 “Interim Financial Reporting” and the applicable disclosure requirements of Appendix 16 to the Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The interim financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

2.2 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

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

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. 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 is presented in accordance with IFRS 8 Operating Segments.

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 during the period.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the services rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

An analysis of revenue and other income is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Online web and mobile games	76,408	178,245
Single-player mobile games	4,576	13,612
	<u>80,984</u>	<u>191,857</u>
Game operation		
– Gross basis	3,291	9,667
– Net basis	77,693	182,190
Online game distribution	352	560
Licensing income	6,968	2,467
Advertising revenue	6,948	6,140
Technical service income	–	396
	<u>95,252</u>	<u>201,420</u>
Other income		
Government grants	4,502	3,639
Interest income	6,162	6,003
	<u>10,664</u>	<u>9,642</u>
Gains		
Fair value gains, net:		
Available-for-sale investments (transfer from equity on disposal)	2,484	1,553
Gain on disposal of items of property, plant and equipment	–	72
Gain on fair value change of contingent consideration	4,286	–
Other gains	36	2
	<u>17,470</u>	<u>11,269</u>

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Research and development costs	112,848	59,779
Channel costs	1,216	2,797
Depreciation	3,875	2,597
Amortisation	11,095	10,620
Advertising expenses	3,071	3,785
Employee benefit expenses (excluding directors' and chief executive's remuneration)		
Salaries and wages	43,307	28,154
Pension scheme contributions	7,737	4,103
Share-based payment expenses	75,002	39,154
	126,046	71,411
Interest income	(6,162)	(6,003)
Government grants	(4,502)	(3,639)

6. INCOME TAX

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 Youli Information Technology Co., Ltd. ("Xiamen Youli"), Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia") and Xiamen Yidou, which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which it generates taxable profit, followed by a 50% reduction for the next three years. 2013, 2013 and 2014 are the first profitable years for Xiamen Youli, Kailuo Tianxia and Xiamen Yidou, respectively.

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax	10,510	8,325
Deferred tax	277	(2,682)
Total tax charge for the period	10,787	5,643

7. (LOSS)/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 period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,546,288,797 (for the six months ended 30 June 2015: 1,513,426,760) in issue during the period, as adjusted to reflect the rights issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period 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 period, 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 Company does not present diluted earnings per share for the six months ended 30 June 2016, as the Company has net loss for the period.

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Accounts receivable from advertising customers	3,426	3,280
Receivables due from third-party game distribution platforms and payment channels	46,950	50,197
	<u>50,376</u>	<u>53,477</u>

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 reporting period based on the invoice date, is as follows:

Accounts receivable from advertising customers

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	<u>3,426</u>	<u>3,280</u>

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	46,950	50,197

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

Accounts receivable from advertising customers

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Neither past due nor impaired	3,426	3,280

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Neither past due nor impaired	46,950	50,197

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.

9. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Prepayments	5,662	2,962
Deposits	7,942	1,738
Other receivables	3,502	2,071
	17,106	6,771

10. AVAILABLE-FOR-SALE INVESTMENTS AND SHORT TERM INVESTMENTS

	30 June 2016	31 December 2015
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Structured financial products (fixed rate)	<u>47,297</u>	<u>20,108</u>
Total short term investments	<u>47,297</u>	<u>20,108</u>

The short term investments were structured financial products issued by banks with fixed interest rates ranged from 3.63% to 3.89% per annum and maturity periods of 60 to 182 days in the PRC. The principals are protected.

Structured financial products (floating rate)	(1)	<u>25,514</u>	<u>20,070</u>
Total current available-for-sale investments		<u>25,514</u>	<u>20,070</u>
Straight bonds	(2)	<u>98,100</u>	95,471
Convertible bonds	(3)	<u>60,736</u>	61,127
Convertible preferred shares	(4)	<u>34,316</u>	35,053
Investment in life insurance policies	(5)	<u>84,904</u>	83,107
Unlisted equity investments at cost	(6)	<u>8,355</u>	–
Total non-current available-for-sale investments		<u>286,411</u>	<u>274,758</u>

- (1) The current available-for-sale investments were structured financial products issued by asset management companies with expected interest rates ranged from 4.2% to 5.3% per annum and maturity periods of 92 to 278 days in the PRC. The principals are not protected.
- (2) 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 total 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.
- (3) 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.

- (4) 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.
- (5) 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 30 June 2016, the insurance premium was pledged to a bank to secure short term advance facility granted to the Group.

- (6) The investments represented the 7.5% and 10.127% equity interest held by the Group in two unlisted companies at investment cost of RMB1,500,000 and RMB6,855,000, respectively.

As at 30 June 2016, the above unlisted equity investments were stated at cost less impairment because the directors are of the opinion that fair value cannot be measured reliably. The Group does not intend to dispose them in the near future.

During the period, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB6,298,000 (six months ended 30 June 2015: RMB2,362,000). In the meantime, profit of RMB2,484,000 (six months ended 30 June 2015: RMB1,553,000) was reclassified from other comprehensive income to the statement of profit or loss for the period.

11. 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 during the period:

	2016		2015	
	Weighted average Exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>	Weighted average exercise price <i>HK\$ per share</i>	Number of options <i>'000</i>
At 1 January	0.65	102,253	0.55	104,520
Granted during the period	–	–	3.93	3,000
Forfeited during the period	0.55	(8,895)	0.55	(610)
Exercised during the period	0.55	(13,815)	–	–
At 30 June	<u>0.68</u>	<u>79,543</u>	<u>0.64</u>	<u>106,910</u>

The weighted average share price at the date of exercise for share options exercised during the period was HK\$1.96 per share (six months ended 30 June 2015: No share options were exercised).

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

For six months ended 30 June 2016

Number of options <i>'000</i>	Exercise price* <i>HK\$ per share</i>	Exercise period
76,543	0.55	31-12-2015 to 05-12-2019
<u>3,000</u>	3.93	10-06-2016 to 09-06-2025
<u>79,543</u>		

For six months ended 30 June 2015

Number of options '000	Exercise price* <i>HK\$ per share</i>	Exercise period
103,910	0.55	31-12-2015 to 05-12-2019
<u>3,000</u>	3.93	10-06-2016 to 09-06-2025
<u>106,910</u>		

* 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 13,815,000 share options exercised during the six months ended 30 June 2016 resulted in the issue of 13,815,000 ordinary shares of the Company and share premium of RMB21,846,000 (before issue expense).

At the end of the reporting period, the Company had 79,543,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 79,543,000 additional ordinary shares of the Company, an additional share capital of approximately RMB53 and a share premium of approximately RMB46,069,000 (before issue expenses).

The Group recognised a total share option expenses of RMB8,824,000 during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB25,042,000).

(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 a total RSU expenses of nil during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB14,112,000).

(3) Award of ordinary shares

One shareholder transferred certain ordinary shares to several employees in subsidiaries for free as rewards for their services to the Group. The reward cost was measured at the fair value of the shares amounted to RMB66,178,000 and expensed to the consolidated statement of profit or loss as employees' remuneration.

12. EVENTS AFTER THE REPORTING PERIOD

On 5 July 2016, the Company granted 1,000,000 share options to an eligible participant to subscribe for up to 1,000,000 Shares under the Post-IPO Share Option Scheme at an exercise price of HK\$1.634. The share options granted are valid for a period of 10 years and will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2016, 2017, 2018 and 2019, respectively.

On 21 July 2016, the Group successfully bid for the land use rights of the Land in Huli District, Xiamen through the Auction held by Xiamen Land Resources and Real Estate Management Bureau with a total amount of RMB107,000,000, among which RMB21,400,000 had been paid by the Group as the deposit for the bidding price of the land in June 2016 and the remaining balance of the bidding price amounted to RMB85,600,000 had been paid in cash on 26 July 2016.

On 31 July 2016, the Company, through one of its wholly-owned subsidiary, entered into an investment agreement with a PRC game development company (the “Target”) and the existing shareholders of the Target for injection of approximately RMB10.77 million into the Target in order to obtain 26% of the equity interests of the Target, and acquisition of 25% of the equity interests of the Target from the existing shareholders of the Target at an aggregated consideration of approximately RMB6.73 million.

OTHER INFORMATION AND CORPORATE GOVERNMENT HIGHLIGHTS

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30 June 2016, the Company repurchased a total of 9,546,000 Shares on the Stock Exchange at an aggregate price paid of HK\$17,271,574.43 before expenses pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on 20 May 2016.

Details of the share repurchase are as follows:

Date of repurchase	Number of shares purchased	Highest price paid HK\$	Lowest price paid HK\$	Aggregate price paid HK\$
January 2016	4,950,000	1.83	1.61	8,775,814.68
February 2016	3,645,000	1.98	1.81	6,923,429.68
June 2016	951,000	1.74	1.57	1,572,330.07
Total	9,546,000			17,271,574.43

All the repurchased Shares have been cancelled prior to 26 July 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 six months ended 30 June 2016.

Audit Committee

The Company established the Audit Committee on 17 November 2014 with written terms of reference adopted in compliance with the CG Code and the terms of reference was amended on 28 December 2015. As at the date of this announcement, the Audit Committee comprises Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, all of whom are independent non-executive Directors.

The Audit Committee, together with the Board and the auditor of the Company, have reviewed the unaudited consolidated interim results of the Group for the six months ended 30 June 2016.

Compliance with the CG Code

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. Save as disclosed herein below, the Company has complied with all applicable code provisions under the CG Code during six months ended 30 June 2016.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. YAO Jianjun serves as the Chairman and Chief Executive Officer of the Company. In view of Mr. YAO Jianjun's extensive experience in the industry, personal profile and role in the Group and its historical development, the Board believes that it is appropriate and beneficial to the business prospects of the Group that Mr. YAO Jianjun acts as both Chairman and Chief Executive Officer. Furthermore, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in an experienced and qualified person such as Mr. YAO Jianjun would provide strong and consistent leadership, allowing the Company to more effectively plan and implement business decisions and strategies. Besides, all major decisions have been made in consultation with members of the Board, which comprises experienced and high caliber individuals, appropriate Board committees, as well as the senior management team. The Board is, therefore, of the view that there are adequate checks and balances in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and make necessary changes at an appropriate time.

The Company will continue to regularly review and monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

Constitutional Documents

In order to give greater flexibility to the Board to pay dividends, amendments were made to the Articles of Association to alter the approval procedure of dividend payment. The amendments to the Articles of Association took effect on 20 May 2016. Details of the amendments were disclosed in the circular of the Company dated 20 April 2016.

The most updated Articles of Association is available on the websites of the Company and Hong Kong Exchanges and Clearing Limited.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code throughout the six months ended 30 June 2016.

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 six months ended 30 June 2016.

Publication of the Interim Results Announcement and 2016 Interim Report

This interim results announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.feiyuhk.com), and the 2016 interim report containing all the information required by the Listing Rules will be dispatched to the Shareholders and published on the abovementioned websites in due course.

APPRECIATION

The Board would like to express its sincere gratitude to the shareholders, management team, employees, business partners and customers of the Group for their continued support and contribution to the Group.

GLOSSARY

“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
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“Cayman Islands”	the Cayman Islands
“CG Code”	Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“Chairman”	the Chairman of the Board
“Chief Executive Officer”	the chief executive officer of our Company
“China” or “PRC” or “Mainland China”	the People’s Republic of China excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“Company”, “we”, “us” or “our”	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
“Directors”	directors of the Company
“Executive Director(s)”	the executive Directors of the Company
“Films”	cartoons, films, TV dramas, online dramas and other visual products
“Global Offering”	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
“Group” or “the Group”	our Company, its subsidiaries and the PRC Operating Entities
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“IAS(s)”	International Accounting Standards
“IASB”	International Accounting Standard 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
“Kailuo Tianxia”	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Licensed Property”	collectively, the Xiamen Guangyu Licensed Property, the Kailuo Tianxia Licensed Property and the Xiamen Youli Licensed Property
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange

“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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
“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
“PRC Operating Entities”	Xiamen Guanhuan and its subsidiaries and “PRC Operating Entity” means any one of them
“Prospectus”	the prospectus dated 25 November 2014 issued by the Company
“Renminbi” or “RMB”	Renminbi yuan, the lawful currency of the PRC
“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
“Shareholders”	holder(s) of Shares
“Shares”	ordinary share(s) in the share capital of our Company with nominal value of US\$0.0000001 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“United States Dollars”	United States dollars, the lawful currency of the United States of America
“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
“Xiamen Guangyu”	Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Xiamen Youli”	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
“Xiamen Zhangxin”	Xiamen Zhangxin Internet Technology Co., Ltd. (廈門掌信網絡科技有限公司), a limited liability company established in the PRC and held as to 50% equity interests by each of Mr. Yao Jianjun and Mr. Chen Jianyu

By Order of the Board
Feiyu Technology International Company Ltd.
YAO Jianjun
Chairman, Chief Executive Officer and Executive Director

Hong Kong, 26 August 2016

As at the date of this announcement, the executive Directors are Messrs. YAO Jianjun, CHEN Jianyu, BI Lin, SUN Zhiyan, LIN Zhibin and LIN Jiabin; and the independent non-executive Directors are Ms. LIU Qianli and Messrs. LAI Xiaoling and MA Suen Yee Andrew.