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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

The Board is pleased to announce the consolidated annual results of the Group for the year ended 31 December 2016, together with the comparative information for the year ended 31 December 2015.

FINANCIAL PERFORMANCE HIGHLIGHTS

	For the year ended 31 December		Change %
	2016 (RMB'000)	2015 (RMB'000)	
Revenue	188,133	322,147	(41.6)
Gross profit	130,949	267,665	(51.1)
(Loss)/Profit before tax	(153,269)	99,730	(253.7)
(Loss)/Profit after tax	(160,915)	94,988	(269.4)
(Loss)/Profit for the year attributable to owners of the parent	(151,002)	65,882	(329.2)
Non-IFRSs Measures			
–Adjusted net profit attributable to owners of the parent (unaudited) ⁽¹⁾	5,474	163,160	(96.6)

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

–Basic	<u>RMB(0.10)</u>	<u>RMB0.04</u>
–Diluted	<u>N/A</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

2016 was a turning point for China's online game industry. Smartphone penetration in China is reaching its peak, which has caused the online game industry's demographic dividend levelled out. Despite these headwinds, the online game industry and mobile games in particular, continued to generate robust growth throughout the year. According to a report published jointly by the Game Publishers Association Publications Committee (GPC) of China Audio-video and Digital Publishing Association (中國音數協遊戲工委), Gamma Data (伽馬數據), and International Data Corporation (IDC), total revenue from China's online game industry for 2016 was RMB165.6 billion, representing an increase of 17.7% year-over-year, with mobile game as the biggest contributor accounting for 49.5% of the total revenue. In the meantime, the number of Chinese gamers reached 566 million in 2016, representing mild year-over-year growth of 5.9%. Revenue however, is becoming increasingly more concentrated as a majority of user time and expenditure is spent on a smaller number of top games. China's online game industry is now being driven by massive hits. Additionally, current trends indicated that games based on proven intellectual property ("IP") tend to have higher adoption rates by players than those based on all-new IP.

2016 was a difficult year for us, with total revenue decreasing by 41.6% from approximately RMB322.1 million in 2015 to approximately RMB188.1 million in 2016. The Group recorded a net loss of approximately RMB160.9 million for the year ended 31 December 2016 as compared to a net profit of approximately RMB95.0 million for the year ended 31 December 2015. Adjusted net profit attributable to the owners of the parent of the Group decreased by 96.6% from approximately RMB163.2 million in 2015 to approximately RMB5.5 million in 2016. The decrease in total revenue and the net loss in 2016 were primarily due to: i) the decrease in revenue from our existing games as they reach the mature stages of their product lifecycle; ii) a delay in the launch of key new games due to the Group's strategic decision to invest additional development time and resources into enhancing their quality; and iii) the underperformance of newly launched games in 2016.

Since our founding in 2009, we have always focused on developing and operating high-quality and self-developed games based on our own IP. In January 2016, we launched Plump Fish (小魚飛飛), a mobile casual game, through Tencent's single-player platforms which can be found on Weixin and mobile QQ. In June 2016, we launched Carrot Fantasy III (保衛蘿蔔3) 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) ranked the first on Apple's China app store in terms of total free downloads, and maintained this position for 17 consecutive days. In addition, we launched the Android and iOS version of Jiong Xi You II (囧西游2) in October 2016. We also released foreign language versions of San Guo Zhi Ren (三國之刃) in Vietnam, Singapore, Malaysia, Indonesia and the Philippines in 2016.

One of our casual game-focused studios in Xiamen published 11 casual games in 2016 under the Crazyant (瘋狂螞蟻) independent brand name. Additionally, an associate company of the Group launched the foreign language version of Beauties Battle (我的後宮時代), which previously had been titled as Beauty Warriors (美人寶鑾) in 28 select countries and regions globally. This game achieved remarkable results in a number of these markets. It ranked No.1 in Taiwan's Google Play app store and South Korea's iOS app store in terms of free downloads, and No.1 in the RPG category in Cambodia and Macau's iOS app stores in terms of gross billings. The web version of Shen Xian Dao II (神仙道2) was also launched in September 2016 under a licensing agreement entered into between the Group and our business partner, X.D. Network Inc. (心動網絡股份有限公司).

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 Internet 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 (囧西遊), 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 equalling 8% of the sales revenue generated by the Films. Please refer to the Company's announcements dated 29 March 2016 for more details.

As a leading online game developer and operator who owns IP popular among millions of people, we have made investments into growing our IP business since 2015. We continued to make significant progress on this front in 2016. Following the launch of the Carrot Fantasy plush toy licensed to NICI International Trading (Shanghai) Co., Ltd., a subsidiary of NICI GmbH ("NICI"), a Germany-based globally producer of high-quality brand name goods, and stationery licensed to Manufacture d'Articles de Précision Et de Dessin ("Maped"), in April and June 2016, respectively, we licensed Carrot Fantasy's (保衛蘿蔔) IP to SM Group Xiamen branch allowing them to build Carrot Fantasy (保衛蘿蔔)-themed decorations that enable and encourage department store customers in Xiamen to interact with them during the holiday season in late 2016 and early 2017. The Carrot Fantasy (保衛蘿蔔) books published by China Children's Publishing House in 2015 were introduced to Southeast Asian market, such as Thailand, in 2016. In addition, we also licensed the IP to General Mills (通用磨坊) for use on advertisements displayed on the Wanchai Ferry (灣仔碼頭) quick-frozen food series for sale and promotion before and after the 2017 Chinese New Year holiday. The licensed squeeze toys based on Carrot Fantasy (保衛蘿蔔) games' main characters with different vivid facial expressions went on sale in all the 7-11 chain stores in Guangdong Province of the PRC since 15 March 2017. By virtue of their cuteness, which in particular appeals to children, the major characters in our Carrot Fantasy (保衛蘿蔔) game series were invited to join the 2017 cartoon annual gala of BTV KAKU Children Channel, which is one of the most popular satellite television channels for children in Mainland China. This is the first time the Company's products have been featured on this channel.

We have been working closely with Tencent on promoting Carrot Fantasy III (保衛蘿蔔 3) both offline and online since its launch in June 2016. These activities also benefited our business partners with the Carrot Fantasy (保衛蘿蔔) game series accumulating hundreds of millions of players that are then simultaneously using our business partners' platforms, products or services. Carrot Fantasy's (保衛蘿蔔) characters and gameplay were featured in Fighting Man (我們戰鬥吧), a popular reality television program on Jiangsu Satellite Television. Carrot Fantasy (保衛蘿蔔) images were also applied as skins and animations to a number of popular applications including QQ Music, Wexin Sticker and Sogou Pinyin Method (搜狗拼音輸入法). Additionally, we worked with Toyota, Pizza Hut, Hainan Airlines (海南航空) and Master Kong (康師傅) in 2016 to cross-promote our games and their products/services.

To further improve our game research and development capabilities, we built a mechanism to optimise our game development studios in 2016. Teams or individuals who are unable to adapt to the fast-changing market were laid off while new highly competitive teams and individuals outside the Group were recruited. In August 2016, we made an investment into an independent game developer whose games target global market. Their flagship game, Super Phantom Cat (超級幻影貓), has been recommended close to 2,000 times on the front page of Apple's app store in 166 countries and regions. The game was also rated in the Annual Best 10 Games of 2016 by Apple Inc. in China and Best of 2016 by Google Play in Taiwan, Indonesia and France.

Principal risks relating to our business

There are certain risks involved in our operations and our prospects and future financial results could be materially and adversely affected by those risks. The following highlights the principal risks exposed to the Group and is not meant to be exhaustive:

- A small number of games have generated a majority of our revenue and we must continue to launch new games that attract and retain a significant number of players in order to grow our revenue and sustain our competitive position.
- Web games and mobile games have short expected life cycles. When a game begins to reach the late stage of its expected life cycle, the amount of revenue it generates may start to decrease. Even if we successfully extend the life cycle of some games, we may not be able to maintain or increase the profitability of such games indefinitely.
- Our business could suffer if we do not successfully manage our current and future growth, which involves optimising our game portfolio, building our workforce and balancing our growth.
- We rely on third-party distribution and publishing platforms to distribute and publish our games. Our business, financial condition, results of operations and prospects may be materially and adversely affected if these third-party distribution and publishing platforms breach their obligations to us, or if we fail to maintain relationships with a sufficient number of platforms, or if the platforms lose popularity among mobile game and web game users.

- The mobile game and web game industries are highly competitive. If we are unable to compete effectively, our business, financial condition, results of operations and prospects will be materially and adversely affected.
- Goodwill impairment could negatively affect our reported results of operations.

To mitigate the identified risks, the Company improves its management capability and adaptability and further ensures the realisation of the business objectives and sustainable growth. We aim at implementing the following strategies to further capture players and enhance monetisation of our games:

- further strengthen and expand our mobile games portfolio by developing additional high-quality RPG mobile and casual mobile games and offering more mobile specific value-adding features to enrich users' game experience on mobile devices;
- leverage our intellectual properties to extend the life cycle of our games;
- further explore monetisation opportunities by enhancing player engagement through improving the design and settings of our games, frequently updating our games with new features and contents, and creating new and innovative game playing methods;
- strengthen our relationships with major international game publishing and distribution partners to expand the reach of our games to new countries and regions.
- continue to expand our international operations and global user base by customising the existing games to target overseas audiences and strengthening our relationships with major international game publishing and distribution partners; and
- apart from developing online games by our existing teams, we also seek opportunities to acquire developed games and their development teams for boosting our game development capabilities and game portfolio.

Outlook for 2017

We will continue to execute our corporate strategy of developing high quality games and extending the application of our self-owned IP in the years ahead. We plan to launch 6 new mobile games in 2017, including the sequel to one of our hit titles, Shen Xian Dao II (神仙道2), whose development cycle we extended to further enhance the user experience which postponed its launch from late 2016 to the first half of 2017. The other 5 games will comprise of 3 RPG games, 1 turn-based RPG game targeting the North American and European markets, as well as 1 casual game with global appeal. In addition, we are also revamping Carrot Fantasy III (保衛蘿蔔3) to further improve its performance before launching a new version in 2017.

We will leverage Carrot Fantasy's (保衛蘿蔔) extraordinary brand awareness and remarkable player base to grow its IP licensing business in 2017 across various different sectors including food and beverage, tourism, retail and entertainment.

As games continue to touch the lives of more and more people around the world, through an increasing number of devices and platforms, the deep engagement and unique experience that games deliver will become increasingly valuable. Bearing this in mind, we have created some of the top games in the industry over the past few years. Going forward, we will continue to focus on creating amazing games with innovating new gameplay. The Board and management of the Company are confident about the Group's future prospects in 2017.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2016 (the year ended 31 December 2015: HK3.0 cents).

FINANCIAL REVIEW

Operating Information

Our Games

During the year, we remained committed to focusing on developing high quality mobile games despite the increased competition in the mobile game industry. Carrot Fantasy 3 (保衛蘿蔔3), the sequel to one of our hit titles, was awarded the “Top 10 Most Popular Mobile Games for 2016” (2016年度十大最受歡迎移動網路遊戲), and the upcoming mobile game Shen Xian Dao II (神仙道2) was awarded the “Top 10 Most Anticipated Mobile Games for 2017” (2017十大最期待移動遊戲).

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			
	2016		2015	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
Game Operation				
Web games	25,961	13.8	36,008	11.2
Mobile games				
RPGs	97,148	51.6	245,061	76.1
Casual	37,377	19.9	21,209	6.6
Total	160,486	85.3	302,278	93.9

Game operations contribution to total revenue decreased from approximately 93.9% in 2015 to approximately 85.3% in 2016. The decrease was mainly due to the increase in contribution from licensing income, which accounted for approximately 7.7% in 2016 compared with 1.6% for the previous year, attributable to the recognition of licensing fees from the Korean version of San Guo Zhi Ren (三國之刃) and the newly launched Carrot Fantasy III (保衛蘿蔔3), as well as licensing income derived from the licensing arrangement for the Carrot Fantasy (保衛蘿蔔) IP. The decrease in revenue from mobile games and its percentage of total revenue was due to the pushed back launch of new key games.

It took us a longer time than expected to test and fine-tune new games. One of our new key games Carrot Fantasy III (保衛蘿蔔3) was not launched until June 2016. Shen Xian Dao II (神仙道2) which was scheduled to be launched in late 2016, is now expected to be launched in the first half of 2017.

Our Players

We assess our operating performance using a set of key performance indicators, which include MAUs, MPUs and ARPPU. Fluctuations in our operating data are primarily a result of changes in the number of players who play, download (in the case of mobile games) and pay for virtual items and premium features in our games. Using these operating data as our key performance indicators can help us monitoring our ability to offer highly engaging online game, the continued popularity of our games, the monetization of our player base and the degree of competition of online game industry, so that we can make better business strategies.

As at 31 December 2016, (i) our RPG mobile games and web games had approximately 211.8 million cumulative registered users, composed of approximately 168.5 million users for web games and approximately 43.3 million users for mobile games; (ii) our casual games had approximately 413.6 million cumulative activated downloads. For the month of December 2016, (i) our RPG mobile games and web games had 1.0 million MAUs in aggregate, composed of approximately 0.5 million MAUs for mobile games and approximately 0.5 million MAUs for web games; (ii) our casual games had approximately 12.6 million MAUs.

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

	For the year ended		
	31 December		
	2016	2015	Change %
Average MPUs			
Web games (RPGs) (000's)	25	32	(21.9)
Mobile games (RPGs) (000's)	86	208	(58.7)
Casual (000's)	503	388	29.6
ARPPU			
Web games (RPGs) (RMB)	85.2	92.7	(8.1)
Mobile games (RPGs) (RMB)	94.0	97.9	(4.0)
Casual (RMB)	6.2	4.6	34.8

Note:

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

Average MPUs for mobile casual games increased from approximately 388,000 for the year ended 31 December 2015 to approximately 503,000 for the year ended 31 December 2016, driven by the launch of Carrot Fantasy 3 (保衛蘿蔔3) in June 2016, partially offset by the decrease in the average MPUs of Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2). Average MPUs for mobile RPG games decreased from approximately 208,000 in 2015 to approximately 86,000 in 2016, primarily due to the maturing of one of our hit titles, San Guo Zhi Ren (三國之刃), which was at its peak in 2015. MPUs for web games decreased from approximately 32,000 for the year ended 31 December 2015 to approximately 25,000 in 2016. The decrease was due to our web games reaching the late stage of their expected lifecycle in 2016, as our strategic focus shifted from web games to mobile games starting in 2013.

ARPPU for casual mobile games increased from approximately RMB4.6 in 2015 to approximately RMB6.2 in 2016. The increase was primarily driven by the launch of Carrot Fantasy III (保衛蘿蔔3) in June 2016, which had better monetisation features, and was partly offset by the decrease in ARPPU from Carrot Fantasy I & II (保衛蘿蔔1&2), which are in the late stages of their respective lifecycles. ARPPU from RPG mobile games decreased slightly from approximately RMB97.9 in 2015 to approximately RMB94.0 in 2016. The decrease was primarily due to the decline in ARPPU from our RPG mobile games Jiong Xi You (囧西游) and Shen Xian Dao (神仙道), which began to reach the late stage of their expected lifecycles in 2016. ARPPU from web games decreased from approximately RMB92.7 in 2015 to approximately RMB85.2 in 2016. The decrease was primarily due to a decrease in ARPPU from the web version of Shen Xian Dao (神仙道), as it reached into the late stages of its lifecycle and players started to spend less on the game.

As part of our business strategy, we continue to put effort into promoting players' in-game purchases, frequently rolling out upgrades to enhance the features of our games and maintain user interest, and launching various in-game promotions and activities. Our dedicated customer service team continued to provide timely customer services via our in-game customer service system. We believed this played a significant role in retaining our players and expanding of our player base.

The year ended 31 December 2016 compared to the year ended 31 December 2015

The following table sets forth the income statement of our Group for the year ended 31 December 2016 as compared to the year ended 31 December 2015.

	For the year ended 31 December		Change %
	2016 (RMB'000)	2015 (RMB'000)	
Revenue	188,133	322,147	(41.6)
Cost of sales	<u>(57,184)</u>	<u>(54,482)</u>	5.0
Gross profit	130,949	267,665	(51.1)
Other income and gains	99,692	44,459	124.2
Selling and distribution expenses	(11,507)	(43,657)	(73.6)
Administrative expenses	(60,951)	(51,881)	17.5
Research and development costs	(180,085)	(114,820)	56.8
Finance costs	(970)	(523)	85.5
Other expenses	(129,626)	(214)	60,472.9
Share of losses of associates	<u>(771)</u>	<u>(1,299)</u>	(40.6)
(LOSS)/PROFIT BEFORE TAX	(153,269)	99,730	(253.7)
Income tax expense	<u>(7,646)</u>	<u>(4,742)</u>	61.2
(LOSS)/PROFIT FOR THE YEAR	<u>(160,915)</u>	<u>94,988</u>	(269.4)
Attributable to:			
Owners of the parent	(151,002)	65,882	(329.2)
Non-controlling interests	<u>(9,913)</u>	<u>29,106</u>	(134.1)

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2016 and 2015:

	For the year ended 31 December			
	2016		2015	
	(RMB'000)	(% of Total Revenue)	(RMB'000)	(% of Total Revenue)
Game Operation	160,486	85.3	302,278	93.9
Online game distribution	1,886	1.0	1,442	0.4
Licensing income	14,503	7.7	5,156	1.6
Advertising revenue	11,064	5.9	12,873	4.0
Technical service income	<u>194</u>	<u>0.1</u>	<u>398</u>	<u>0.1</u>
Total	<u>188,133</u>	<u>100.0</u>	<u>322,147</u>	<u>100.0</u>

Total revenue decreased by approximately 41.6% to approximately RMB188.1 million for the year ended 31 December 2016 from the year ended 31 December 2015. Revenue from game operation decreased by approximately 46.9% to approximately RMB160.5 million for the year ended 31 December 2016 from the year ended 31 December 2015. Such decrease was primarily due to the maturing of one of our hit titles, San Guo Zhi Ren (三國之刃), which was at its peak stage in 2015. The decrease in the revenue from our other existing games also dragged down our total revenue as they reached the mature stage of their respective expected product lifecycles. In addition, the decrease was also due to the delay in launching of our new key games as a result of the Group's strategic decision to invest additional development time and resources to enhance the quality of such games. Other than Carrot Fantasy III (保衛蘿蔔3) and Jiong Xi You II (囧西遊2), which were launched on 13 June and 18 October 2016 respectively, the Group did not launch other new key games in 2016. Furthermore, the underperformance of newly launched games in 2016 with limited contribution to the Group's revenue was another reason for the decrease. Revenue from online game distribution increased by 30.8% to approximately RMB1.9 million for the year ended 31 December 2016 from the year ended 31 December 2015, primarily due to the launching of new games by our overseas game distribution and operating team. Licensing income increased by approximately 181.3% to approximately RMB14.5 million for the year ended 31 December 2016 from the year ended 31 December 2015, primarily attributable to the recognition of licensing fees of Korean version of San Guo Zhi Ren (三國之刃) and the Carrot Fantasy III (保衛蘿蔔3) launched in the first half of 2016. In addition, the increase was also attributable to royalty income of approximately RMB2.0 million derived from the Carrot Fantasy (保衛蘿蔔) licensed products, such as books, plush toys and stationery, as well as another licensing arrangements of the IP. Advertising revenue decreased by approximately 14.1% to approximately RMB11.1 million for the year ended 31 December 2016 from the year ended 31 December 2015, primarily due to Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2) reaching late stages of their expected life cycles with the number of active users declining, although the two games' life cycles have excelled far more than the industry average level. Technical service income in 2015 was derived from the provision of technical support services for 737.com platform, and the technical service income in 2016 was derived from the provision of technical support services for a game development company in Chengdu.

Cost of sales

Our cost of sales was approximately RMB57.2 million for the year ended 31 December 2016, increasing by 5.0% compared to approximately RMB54.5 million for the year ended 31 December 2015. The increase was primarily due to the increase in salaries and welfare from approximately RMB21.7 million for the year ended 31 December 2015 to approximately RMB26.9 million for the year ended 31 December 2016, as a result of the increase in the number of operation employees and their salaries and welfare after the launch of Carrot Fantasy III (保衛蘿蔔3) and Jiong Xi You II (囧西遊2) during 2016 and for overseas operations. The increase was also attributable to the increase of rental fee from approximately RMB0.9 million for the year ended 31 December 2015 to approximately RMB2.2 million for the year ended 31 December 2016 which was due to the establishment of the overseas game distribution and operating team in the second half of 2015. The increase was partially offset by the decrease in share-based compensation from approximately RMB8.0 million for the year ended 31 December 2015 to approximately RMB3.7 million for the year ended 31 December 2016.

Gross profit and gross profit margin

Based on the foregoing, our gross profit decreased by 51.1% from approximately RMB267.7 million for the year ended 31 December 2015 to approximately RMB130.9 million for the year ended 31 December 2016. Our gross profit margin for 2016 was 69.6% as compared to 83.1% for 2015.

Other income and gains

Our other income and gains increased by approximately 124.2% from approximately RMB44.5 million for the year ended 31 December 2015 to approximately RMB99.7 million for the year ended 31 December 2016, primarily due to the recognition of gain on fair value change of contingent consideration which amounted to approximately RMB75.6 million for year ended 31 December 2016. The gain on fair value change of the contingent consideration represented the gain on fair value change of the contingent consideration of the remaining balance of 59,000,000 consideration shares to Fine Point Development Limited (“Fine Point”) regarding the acquisition of 100% equity interest in Jiayi Global Limited (“Jiayi Global”) (which indirectly holds 25% of the registered capital of each of Xiamen Yidou Internet Technology Co., Ltd. and Xiamen Zhangxin Interactive Technology Co., Ltd. (the “PRC Companies”)) which had been expected to be allotted and issued in 2017 and 2018 as disclosed in the Company’s circular dated 27 July 2015 (the “Circular”). As the financial results of the PRC Companies decreased significantly during 2016 as compared to 2015, the total net profit after tax (including the profits generated from non-principal activities) of the PRC Companies for the year ended 31 December 2016 was considerably lower than the 2016 Profit Indicator as disclosed in the Circular. As such, the number of the Third Tranche Consideration Shares (as defined in the Circular) was reduced significantly to be 11,183,955 shares. In addition, Fine Point unconditionally and irrevocably waived the Fourth Tranche Consideration Shares (as defined in the Circular) as disclosed in the announcement of the Company dated 2 January 2017. 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, i.e. 59,000,000 shares. Since the closing price of Shares on 31 December 2016 was HKD1.15, and the estimated number of shares to be allotted and issued was 11,183,955 shares, there was a significant decrease in the fair value of financial liability we recognised and as a result, there was a RMB75.6 million gain on fair value change. The increase was partially offset by the decrease in bank interest income from approximately RMB9.4 million for the year ended 31 December 2015 to approximately RMB4.0 million for the year ended 31 December 2016 and the decrease in government grants from approximately RMB11.7 million for the year ended 31 December 2015 to approximately RMB8.2 million for the year ended 31 December 2016. The decrease in bank interest income was mainly due to the exchange of the fixed deposits denominated in RMB with higher interest rate into deposits denominated in non-RMB currencies with much lower interest rate in order to prevent the exchange losses due to the depreciation of RMB against USD and HKD. The government grants decreased in 2016 as the government grants are in connection with the Group’s financial performance.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 73.6% from approximately RMB43.7 million for the year ended 31 December 2015 to approximately RMB11.5 million for the year ended 31 December 2016. The decrease was primarily due to the one-off share-based payment of RMB20.3 million recognised in 2015 while there was no such expense in 2016. The share-based payment was related to the transfer of 13.0 million Shares 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 in 2015. The decrease was also due to the forfeiture of share options which dragged down the cost of share-based compensation by approximately RMB6.3 million for the year ended 31 December 2016 as compared with the previous year, and the decrease in salaries, pension schemes contribution and welfare from approximately RMB1.4 million for the year ended 31 December 2015 to approximately RMB0.2 million for the year ended 31 December 2016, as a result of the decreased number of marketing staff. Besides, the decrease was also attributable to the decrease of channel fees from approximately RMB5.0 million for the year ended 31 December 2015 to approximately RMB2.1 million for the year ended 31 December 2016, which was because the games we distributed and operated by ourselves were in their mature stage and the number of promotion activities were reduced in 2016.

Administrative expenses

Our administrative expenses increased by approximately 17.5% from approximately RMB51.9 million for the year ended 31 December 2015 to approximately RMB61.0 million for the year ended 31 December 2016. The increase was primarily attributable to the increase in salaries, pension schemes contribution and welfare from approximately RMB21.3 million for the year ended 31 December 2015 to approximately RMB32.2 million for the year ended 31 December 2016, which was mainly driven by the increase of average 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. The increase was partially offset by the decrease in the cost related to the share options granted in November 2014.

Research and development costs

Our research and development costs increased by approximately 56.8% from RMB114.8 million for the year ended 31 December 2015 to approximately RMB180.1 million for the year ended 31 December 2016. The increase was primarily due to a one-off share-based payment of RMB66.2 million and a deemed share-based payment of RMB6.1 million recognised in 2016 while there was no such expense in 2015. The share-based payment was related to the transfer of 42.1 million shares of the Company from a major shareholder to a few key employees who were responsible for the Group's game development as a reward for their contribution to the Group. The reward cost was measured at the fair value of the shares on the date of the transfer and charged against the consolidated statement of profit or loss as employees' remuneration. The deemed share-based payment was related to the non-reciprocal capital contributions made by the Group to the non-wholly owned subsidiaries of which the non-controlling shareholders are employees. The amount of contributions made by the parent company to the non-controlling shareholders was charged against the consolidated statement of profit or loss as employees' remuneration. The increase was also due to the increase in salaries, pension

schemes contribution and welfare from approximately RMB60.3 million for the year ended 31 December 2015 to approximately RMB79.2 million for the year ended 31 December 2016 as a result of the increased average number of R&D employees in 2016 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 RMB39.3 million for the year ended 31 December 2015 to approximately RMB14.0 million for the year ended 31 December 2016.

Finance costs

Our finance costs 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. Our finance costs increased by approximately 85.5% from approximately RMB523,000 for the year ended 31 December 2015 to approximately RMB970,000 for the year ended 31 December 2016, which was attributable to the recognition of full-year interest for the year ended 31 December 2016 while only 5-month interest was recognised for the year ended 31 December 2015.

Other expenses

Our other expenses increased from approximately RMB0.2 million for the year ended 31 December 2015 to approximately RMB129.6 million for the year ended 31 December 2016. The increase was primarily attributable to an impairment loss of goodwill of approximately RMB107.8 million, an impairment loss of other intangible asset of approximately RMB9.6 million, an impairment of non-refundable advancement of RMB1.4 million and a provision of investment impairment loss of approximately RMB3.5 million made for the year ended 31 December 2016. The impairment loss of goodwill was mainly related to the goodwill recognised in 2013 pursuant to our acquisition of Kailuo Tianxia as disclosed in the Prospectus and the impairment loss of goodwill made was due to the recoverable amount of the Carrot Fantasy cash-generating unit to which the goodwill related was less than the carrying amount of the goodwill. The impairment loss of other intangible asset was related to the intellectual property of Carrot Fantasy II (保衛蘿蔔2) recognised pursuant to the acquisition of Kailuo Tianxia as disclosed in the Prospectus and the impairment loss of other intangible asset made was due to the carrying value of the intangible asset exceeding its recoverable amount. The impairment loss of non-refundable advance was related to the licensing fee for overseas game distribution of Xia Yin Jiang Hu (俠隱江湖) and the impairment was due to the game gradually being taken offline and the licensing fee paid would not be recovered. The provision of investment impairment loss made was for a non-controlling investment in a company which was engaged in design, production and distribution of network dramas. The increase was also due to the recognition of exchange loss for the year ended 31 December 2016 which amounted to approximately RMB7.0 million due to the depreciation of RMB against USD and HKD.

Income tax expense

Our income tax expense increased by approximately 61.2% from approximately RMB4.7 million for the year ended 31 December 2015 to approximately RMB7.6 million for the year ended 31 December 2016. Our effective income tax rate was 4.8% for the year ended 31 December 2015, while the total income tax expense was approximately RMB7.6 million against the loss before tax for the year ended 31 December 2016. It was because the income tax rate of two profitable subsidiaries of the Company has been increased.

Xiamen Yidou Internet Technology Co., Ltd. (“Xiamen Yidou”), a subsidiary of the Company which developed our major RPG mobile game, San Guo Zhi Ren (三國之刃), had been exempted from income tax in 2015 and was taxed at 12.5% in 2016. Xiamen Feixin Internet Technology Co., Ltd., a subsidiary of the Company which developed our new casual mobile game, Carrot Fantasy III (保衛蘿蔔3), had been in deficit in 2015 while made profit and was being taxed at 25% in 2016 after the launch of Carrot Fantasy III (保衛蘿蔔3) in June 2016.

Loss/Profit for the year

As a result of the foregoing, the loss/profit for the year was a loss of approximately RMB160.9 million as compared to a profit of approximately RMB95.0 million for the year ended 31 December 2015. And our loss/profit attributable to owners of the parent changed from a profit of approximately RMB65.9 million for the year ended 31 December 2015 to a loss of approximately RMB151.0 million for the year ended 31 December 2016.

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

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 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 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 attributable to owners of the parent as net income or loss attributable to owners of the parent excluding share-based compensation, amortisation of intangible assets recognised for acquisitions, impairment loss of goodwill and intangible asset recognised for acquisition of Kailuo Tianxia and gain on fair value change of contingent consideration 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.

	For the year ended		
	31 December		
	2016	2015	Change%
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	
(Loss)/Profit for the year attributable to owners of the parent	(151,002)	65,882	(329.2)
Add:			
Share-based compensation	95,595	84,208	13.5
Amortisation of intangible assets recognised for acquisitions	20,485	20,485	–
Impairment loss of goodwill and intangible asset recognised for acquisition of Kailuo Tianxia	115,980	–	N/A
Gain on fair value change of contingent consideration recognised for acquisitions	(75,584)	(7,415)	919.3
Total	<u>5,474</u>	<u>163,160</u>	

Financial Position

As at 31 December 2016, total equity of the Group amounted to approximately RMB1,025.8 million, as compared to approximately RMB1,070.4 million as at 31 December 2015. The decrease was mainly due to an impairment loss of goodwill of approximately RMB107.8 million, the distribution of a final dividend for the year ended 31 December 2015 in 2016 amounting to approximately RMB39.7 million and the equity impact of approximately RMB30.5 million regarding the repurchase of the Shares on the Stock Exchange. The decrease was partially offset by the recognition of gain on fair value change of contingent consideration which amounted to RMB75.6 million, the equity impact of approximately RMB8.2 million regarding the exercise of share options and the equity impact of approximately RMB53.6 million regarding the 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 Jiayi 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 Group's net current assets amounted to approximately RMB155.2 million as at 31 December 2016, as compared to approximately RMB314.5 million as at 31 December 2015. This decrease was primarily due to the payment of bidding price of RMB107.0 million and deed tax of approximately RMB3.2 million for the acquisition of land use rights as disclosed in the section headed "Significant investments held/future plans for material investments or capital assets and significant acquisitions and disposals of subsidiaries, associates and joint ventures" in this announcement and the distribution of the final dividend for the year ended 31 December 2015 in 2016 amounting to approximately RMB39.7 million. The decrease was also partially attributable to the increase in non-current available-for-sale investments of approximately RMB124.4 million. The decrease was partially offset by the decrease in payables for contingent consideration of approximately RMB125.1 million, of which approximately RMB53.6 million was attributable to the 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, and approximately RMB75.6 million was attributable to the change of share price, the adjustment of the third tranche consideration shares and the cancellation of fourth tranche consideration shares regarding the acquisition of 100% equity interest in Jiaxi Global as disclosed in the announcement of the Company dated 2 January 2017.

Liquidity and Capital Resources

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

	2016 (RMB'000)	2015 (RMB'000)	Change%
Net cash flow from operating activities	17,791	228,392	(92.2)
Net cash flow used in investing activities	(186,237)	(248,412)	(25.0)
Net cash flow used in financing activities	(61,879)	(62,522)	(1.0)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(230,325)	(82,542)	179.0
Cash and cash equivalents at the beginning of year	463,897	545,511	(15.0)
Effect of foreign exchange rate changes, net	3,456	928	272.4
Cash and cash equivalents at the end of year	237,028	463,897	(48.9)

Our total cash and cash equivalents amounted to approximately RMB237.0 million as at 31 December 2016, as compared to approximately RMB463.9 million as at 31 December 2015. The decrease was primarily due to the payment of bidding price of RMB107.0 million for the acquisition of land use rights as disclosed in the section headed “Significant investments held/future plans for material investments or capital assets and significant acquisitions and disposals of subsidiaries, associates and joint ventures” in this announcement, the distribution of final dividend for the year ended 31 December 2015 in 2016 which amounted to approximately RMB39.7 million, and the increase in utilisation of our current financial resources for investments after maturity of time deposit in 2016 of approximately RMB91.3 million. Such decrease was partially offset by the cash generated from operating activities for the year ended 31 December 2016.

As at 31 December 2016, approximately RMB79.6 million of our financial resources (31 December 2015: RMB31.3 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 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 31 December 2016, we had a time loan of approximately US\$8.0 million (31 December 2015: US\$7.9 million) with an interest rate of 2.0820% 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 of 31 December 2016, we had available-for-sale investments of approximately RMB406.3 million (31 December 2015: RMB294.8 million) and had no short-term investments (31 December 2015: RMB20.1 million). The current available-for-sale investment represents a structured financial product issued by an asset management company with an expected interest rate at 4.2% per annum and a maturity period of 180 days which was invested by a company's subsidiary in the PRC. The principals are not protected. The non-current available-for-sale investments represent structured financial products issued by banks with the principals protected, with floating interest rates and without fixed maturity period which were invested by the Company's subsidiaries in the PRC and 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 4.45% to 6.875% per annum which were invested by the Company, the investment in life insurance policies by the Company and equity interests held by the Group in five unlisted companies and one company listed on China New Third Board. 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 contracts 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 RMB64.0 million of the structured financial products is protected while the principal of the rest are not. The fair values of the structured financial products 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 assets divided by total liabilities, the Group's gearing ratio was 14.5% as at 31 December 2016 and 19.3% as at 31 December 2015.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2016 and 2015:

	For the year ended		Change %
	2016	2015	
	(RMB'000)	(RMB'000)	
Land use rights	110,210	–	N/A
Property, plant and equipment	1,974	10,101	(80.5)
Construction in progress	1,063	–	N/A
Intangible assets	–	2,019	(100.0)
Total	113,247	12,120	834.4

Our capital expenditures comprised land use rights, property, plant and equipment, such as company vehicles for employees' use, and intangible assets, such as software and platform. The total capital expenditures for the year were approximately RMB113.2 million as compared to approximately RMB12.1 million for the previous year, increasing by approximately RMB101.1 million which was primarily due to the payment of bidding price amounting to RMB107.0 million for the acquisition of land use rights as disclosed in the section headed "Significant investments held/future plans for material investments or capital assets and significant acquisitions and disposal of subsidiaries, associates and joint ventures" in this announcement, payment of deed tax amounting to approximately RMB3.2 million related to the land use rights and construction in progress of approximately RMB1.1 million relating to the construction cost of the land acquired. The increase in the total capital expenditures was partially offset by the decrease of purchase of company vehicles and the leasehold improvements for the offices leased and the decrease in purchase of intangible assets, especially the purchase of a platform amounted to approximately RMB2.0 million in 2015.

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

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 to build 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 disclosed in this announcement, the Group currently has no specific plan for significant investment or acquisition of major capital assets or other businesses in 2017. However, the Group will continue to identify new opportunities for business development.

The Company, through one of its wholly-owned subsidiary, made an investment into a PRC independent game developer, whose flagship game is Super Phantom Cat (超級幻影貓), and as a result, owns 51% of its total equity interests. The investment will allow the Group to strengthen its R&D capabilities and provide synergy with its existing business. Please refer to the Company's announcements dated 26 July 2016 for more details.

Pledge of Assets

As at 31 December 2016, the bank loan of the Group amounting to US\$8.0 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\$13.1 million.

Contingent liabilities and guarantees

As at 31 December 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 31 December 2016, we had 511 full-time employees, the majority of whom were based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2016:

	Number of Employees	% of Total
Development	307	60.1
Operations	139	27.2
Administration	65	12.7
Sales and marketing	—	—
Total	511	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 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.

Foreign currency risk

In the year ended 31 December 2016, 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.

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.

Corporate Social Responsibility

Our Group has sought to operate in a responsible, transparent and sustainable way. We commit to promoting the long term sustainability of the environment by advocating 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.

Our Group has also been committed to enhancing our contribution to the communities by participating in community services, supporting people in need and sponsoring educational activities. In addition, we also encourage our employees of all levels to participate in the aforesaid activities by the way of charity bazaar. Our Group will continue to invest resources in social activities to develop a better future for our community.

Compliance with the Relevant Laws and Regulations

To the best of the Directors' knowledge, information and belief on the date of this announcement, 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 2016

On 24 March 2017, the Group and Beijing Star World Technology Company Limited, mutually agreed not to proceed with the license agreement entered into on 22 March 2016 and planned to enter into a termination agreement to terminate the license agreement with effect from the date of the termination agreement in relation to one game which is now still under development and has not yet launched and operated commercially in the market.

FINANCIAL INFORMATION

Consolidated statement of profit or loss and comprehensive income

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
REVENUE	4	188,133	322,147
Cost of sales		<u>(57,184)</u>	<u>(54,482)</u>
Gross profit		130,949	267,665
Other income and gains	4	99,692	44,459
Selling and distribution expenses		(11,507)	(43,657)
Administrative expenses		(60,951)	(51,881)
Research and development costs		(180,085)	(114,820)
Finance costs		(970)	(523)
Other expenses		(129,626)	(214)
Share of losses of associates		<u>(771)</u>	<u>(1,299)</u>
(LOSS)/PROFIT BEFORE TAX	5	(153,269)	99,730
Income tax expense	6	<u>(7,646)</u>	<u>(4,742)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(160,915)</u>	<u>94,988</u>
Attributable to:			
Owners of the parent	8	(151,002)	65,882
Non-controlling interests		<u>(9,913)</u>	<u>29,106</u>
		<u>(160,915)</u>	<u>94,988</u>

	<i>Notes</i>	2016 RMB'000	2015 RMB'000
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		<u>RMB(0.10)</u>	<u>RMB0.04</u>
– Diluted		<u>Not applicable</u>	<u>RMB0.04</u>
(LOSS)/PROFIT FOR THE YEAR		(160,915)	94,988
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		4,606	(10,906)
Reclassification adjustments for gains included in the consolidated statement of profit or loss	4	(1,105)	(7,748)
Exchange differences related to foreign operations		<u>20,718</u>	<u>16,540</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		<u>24,219</u>	<u>(2,114)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		<u>24,219</u>	<u>(2,114)</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		<u>(136,696)</u>	<u>92,874</u>
Attributable to:			
Owners of the parent		(126,670)	63,768
Non-controlling interests		<u>(10,026)</u>	<u>29,106</u>
		<u>(136,696)</u>	<u>92,874</u>

Consolidated statement of financial position

	<i>Notes</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		13,376	18,480
Prepaid land lease payments		106,307	–
Goodwill	9	314,253	409,557
Other intangible assets		5,631	36,517
Investments in associates		17,668	16,701
Prepayments, deposits and other receivables		22,412	2,210
Available-for-sale investments	11	399,116	274,758
Deferred tax assets		2,387	3,244
		<hr/>	<hr/>
Total non-current assets		881,150	761,467
CURRENT ASSETS			
Accounts receivable	10	895	3,280
Receivables due from third-party game distribution platforms and payment channels	10	53,373	50,197
Prepayments, deposits and other receivables		19,866	6,771
Restricted cash		680	–
Short term investment	11	–	20,108
Available-for-sale investment	11	7,139	20,070
Cash and cash equivalents		237,028	463,897
		<hr/>	<hr/>
Total current assets		319,001	564,323
CURRENT LIABILITIES			
Other payables and accruals		90,353	187,875
Interest-bearing bank borrowing		55,655	51,129
Tax payable		6,228	3,100
Deferred revenue		11,594	7,716
		<hr/>	<hr/>
Total current liabilities		163,830	249,820
NET CURRENT ASSETS		<hr/> 155,171 <hr/>	<hr/> 314,503 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 1,036,321 <hr/>	<hr/> 1,075,970 <hr/>

	2016	2015
	RMB'000	RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	1,036,321	1,075,970
NON-CURRENT LIABILITIES		
Deferred tax liabilities	450	4,208
Deferred revenue	10,097	1,319
Total non-current liabilities	10,547	5,527
Net assets	1,025,774	1,070,443
EQUITY		
Equity attributable to owners of the parent		
Share capital	1	1
Share premium	504,719	490,051
Treasury shares	(8,394)	(5,090)
Reserves	530,959	587,951
	1,027,285	1,072,913
Non-controlling interests	(1,511)	(2,470)
Total equity	1,025,774	1,070,443

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. 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	RMB100,000,000	19 September 2011	–	100	Game development and distribution
Xiamen Yidou	PRC/Mainland China	RMB5,000,000	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\$5,000,000	24 June 2015	–	100	Investment holding
Xiamen Zhangxin Interactive Technology Co., Ltd.	PRC/Mainland China	RMB100,000	27 October 2014	–	100	Game development and distribution
Xiamen Guangyu Investment Management Co., Ltd. (“Xiamen Guangyu”)	PRC/Mainland China	RMB100,000	10 November 2014	–	100	Game development and distribution
Xiamen Feixin Internet Technology Co., Ltd.	PRC/Mainland China	RMB1,000,000	13 November 2014	–	100	Game development and distribution
Xiamen Veewo Games Co., Ltd. (“Xiamen Veewo”)	PRC/Mainland China	RMB1,350,000	29 February 2016	–	51	Game development and distribution
Veewo Limited	Hong Kong	HKD10,000	12 January 2012	–	51	Game development and distribution

During the year, the Group acquired Veewo Limited, Xiamen Veewo and its subsidiary from an independent third party.

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.

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 2016. 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 above. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
IFRS 14	<i>Regulatory Deferral Accounts</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	<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 new and revised standards has had no significant financial effect on these 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.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts²</i>
IFRS 9	<i>Financial Instruments²</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers²</i>
IFRS 16	<i>Leases³</i>
Amendments to IAS 7	<i>Disclosure Initiative¹</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

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 and revised standards on the Group's results and financial position.

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

Information about a major customer

Revenue from continuing operations of approximately RMB34,084,000 (2015: Nil) was derived from a single customer for game operation.

4. 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue		
Online web and mobile games	154,610	281,069
Single-player mobile games	5,876	21,209
Game operation	160,486	302,278
– Gross basis	5,173	17,619
– Net basis	155,313	284,659
Online game distribution	1,886	1,442
Licensing income	14,503	5,156
Advertising revenue	11,064	12,873
Technical service income	194	398
	188,133	322,147
Other income		
Government grants	8,220	11,697
Interest income	14,424	16,698
	22,644	28,395
Gains		
Fair value gains, net:		
Available-for-sale investments (transfer from equity on disposal)	1,105	7,748
Gain on fair value change of contingent consideration	75,584	7,415
Gain on disposal of items of property, plant and equipment	226	72
Others	133	829
	77,048	16,064
	99,692	44,459

5. (LOSS)/PROFIT BEFORE TAX

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

	<i>Notes</i>	2016 RMB'000	2015 <i>RMB'000</i>
Channel costs		2,071	4,963
Rental fee (including servers)		12,065	8,733
Depreciation		7,828	5,853
Amortisation		21,303	21,300
Amortisation of land lease payments		1,148	–
Advertising expenses		10,667	8,883
Auditor's remuneration		2,650	2,600
Impairment of goodwill*	9	107,754	–
Impairment of other intangible asset*		9,583	–
Impairment of an investment in an associate*		3,512	–
Employee benefit expenses (excluding directors' and chief executive's remuneration)			
Salaries and wages		103,513	77,620
Pension scheme contributions		14,830	9,745
Share-based payment expenses		89,463	84,208
Other compensation expenses		6,132	–
		213,938	171,573
Foreign exchange losses		6,956	–
Gain on disposal of items of property, plant and equipment		(32)	(72)

* The impairment of goodwill, the impairment of other intangible asset and the impairment of an investment in an associate are included in "Other expenses" in the consolidated statement of profit or loss.

6. 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 Youli, Kailuo Tianxia, Xiamen Yidou and Xiamen Guangyu 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. 2013, 2013, 2014 and 2015 are the first profitable years for Xiamen Youli, Kailuo Tianxia, Xiamen Yidou and Xiamen Guangyu, 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 2016, 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 RMB412,914,000 at 31 December 2016 (2015: RMB351,388,000).

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax	10,547	9,145
Deferred tax	(2,901)	(4,403)
	<hr/>	<hr/>
Total tax charge for the year	<u>7,646</u>	<u>4,742</u>

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
(Loss)/profit before tax	(153,269)	99,730
	<hr/>	<hr/>
Tax at the applicable tax rate	(55,342)	20,944
Lower tax rates enacted by local authorities	(8,800)	(45,450)
Expenses not deductible for tax	52,327	22,012
Other tax credit	(5,922)	(4,189)
Tax losses utilised from previous years	(1,731)	(116)
Deferred tax assets not recognised	27,114	11,541
	<hr/>	<hr/>
Tax charge	<u>7,646</u>	<u>4,742</u>

7. DIVIDENDS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Proposed and paid 2015 interim dividend – HK2 cents per ordinary share	–	25,436
Proposed and paid 2015 special dividend – HK3 cents per ordinary share	–	38,155
Proposed and paid 2015 final dividend – HK3 cents per ordinary share	<u>39,737</u>	<u>–</u>
	<u>39,737</u>	<u>63,591</u>

8. (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 (loss)/profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,560,502,622 (2015: 1,524,984,723) 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 Company has not presented diluted earnings per share for the year ended 31 December 2016, as the Company had net loss for the year.

9. GOODWILL

	<i>RMB'000</i>
At 1 January 2015	
Cost and net carrying amount	<u>408,619</u>
Cost at 1 January 2015	408,619
Acquisition of a subsidiary	<u>938</u>
At 31 December 2015	<u>409,557</u>
At 31 December 2015	
Cost and net carrying amount	<u>409,557</u>
Cost at 1 January 2016	409,557
Acquisition of a subsidiary	12,450
Impairment during the year	<u>(107,754)</u>
At 31 December 2016	<u>314,253</u>
At 31 December 2016	
Cost	422,007
Accumulated impairment	<u>(107,754)</u>
Net carrying amount	<u>314,253</u>

Impairment testing of goodwill

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

- Carrot Fantasy cash-generating unit
- Super Phantom Cat cash-generating unit
- Jiong Xi You cash-generating unit
- Sanguo Zhiren cash-generating unit
- Tianxia Jiayou cash-generating unit
- Chengdu Guangcheng cash-generating unit

The recoverable amount of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering seven-year period approved by board of directors. The discount rate applied to the cash flow projections is 24% (2015: 21%). The growth rate used to extrapolate the cash flows of the relevant games beyond the relevant periods is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Carrot Fantasy cash-generating unit	300,076	406,473
Super Phantom Cat cash-generating unit	12,450	–
Chengdu Guangcheng cash-generating unit	–	1,357
Tianxia Jiayou cash-generating unit	939	939
Jiong Xi You cash-generating unit	401	401
Sanguo Zhiren cash-generating unit	387	387
	<hr/>	<hr/>
Carrying amount of goodwill	314,253	409,557

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2016 and 31 December 2015. 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 Company believes this budgeted income is justified given the strong game development capability and experience of games, the corporation with major third-party distribution platforms and the successful record of developing its Carrot Fantasy series.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Accounts receivable from advertising customers	895	3,280
Receivables due from third-party game distribution platforms and payment channels	53,373	50,197
	54,268	53,477

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 enhancements 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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 3 months	895	3,280

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 3 months	53,373	50,197

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

Accounts receivable from advertising customers

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	895	3,280

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	53,373	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.

11. AVAILABLE-FOR-SALE INVESTMENTS AND SHORT TERM INVESTMENT

		2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Structured financial product		–	20,108
Total short term investment		–	20,108
		2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Structured financial product	(1)	7,139	20,070
Total current available-for-sale investment		7,139	20,070
Structured financial products	(2)	64,000	–
Straight bonds	(3)	112,007	95,471
Convertible bonds	(4)	19,257	61,127
Convertible preferred shares	(5)	46,342	35,053
Investment in life insurance policies	(6)	90,708	83,107
Unlisted equity investment, at cost	(7)	66,802	–
Total non-current available-for-sale investments		399,116	274,758

- (1) The current available-for-sale investment was a structured financial product issued by an asset management company with an expected interest rate at 4.2% per annum and a maturity period of 180 days in the PRC.
- (2) The non-current available-for-sale investments were structured financial products issued by banks with floating interest rate in the PRC without maturity date.
- (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. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US\$1,500,000 at a consideration of US\$1,566,000 (equivalent to approximately RMB10.8 million).

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.

On 9 September 2016, the Group invested in a bond issued by Zhongrong International Trust Co., Ltd. with a nominal amount of US\$3,000,000 at a consideration of US\$3,062,000 (equivalent to approximately RMB20.4 million). The bond has a coupon interest rate of 6% per annum with a maturity period of 3 years.

Available-for-sale investments 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.

- (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 5 July 2016, the Group sold the above perpetual convertible bond with a nominal amount of US\$2,000,000 for a consideration of US\$1,993,000 (equivalent to approximately RMB13.3 million).

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. In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US\$5,000,000 for a consideration of US\$4,788,000 (equivalent to approximately RMB31.9 million).

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.

Available-for-sale investments 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.

- (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.

On 30 September 2016, the Group invested in convertible preferred shares issued by China Cinda Asset Management Co., Ltd. with a nominal amount of US\$1,500,000 at a consideration of US\$1,504,000 (equivalent to approximately RMB10.0 million). The convertible preferred shares have a non-cumulative dividend of 4.45% per annum.

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.

Available-for-sale investments 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.

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

- (7) The investments represented the equity interests held by the Group in several unlisted companies at a total investment cost of RMB66,802,000.

As at 31 December 2016, the above unlisted equity investments were stated at cost less impairment. The directors are of the opinion that fair value cannot be measured reliably 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. The Group does not intend to dispose it in the near future.

During the year, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB4,606,000 (2015: net loss of RMB10,906,000). In the meantime, profit of RMB1,105,000 (2015: RMB7,748,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

12. 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 5 July 2016, under the Post-IPO Share Option Scheme, share options were granted to an employee to subscribe for 1,000,000 shares at an exercise price of HK\$1.634 per share. All share options granted 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. Each option granted if not exercised subsequently will expire on 4 July 2026.

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

	2016		2015	
	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	0.65	102,253	0.55	104,520
Granted during the year	1.63	1,000	3.93	3,000
Forfeited during the year	0.55	(16,070)	0.55	(4,550)
Exercised during the year	0.55	(17,675)	0.55	(717)
Expired during the year	0.55	(1)	–	–
At 31 December	0.71	69,507	0.65	102,253

The weighted average share price at the date of exercise for the share options exercised during the year was HK\$1.80 per share (2015: HK\$1.87 per share).

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

2016

Number of options '000	Exercise price* HK\$ per share	Exercise period
65,507	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
<hr/> 69,507		

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
<hr/> 102,253		

* 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 RMB620,000 (2015: RMB4,990,000), of which the Group recognised a share option expense of RMB246,000 during the year ended 31 December 2016.

The fair value of the share options granted during the year was estimated at the date of grant, 5 July 2016, 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:

	2016	2015
Dividend yield (%)	–	–
Expected volatility (%)	61.8	52.6
Risk-free interest rate (%)	0.98	2.5
Expected life of options (year)	10	10
Share price (HK\$ per share)	0.72	2.11

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.

The 17,675,000 share options exercised during the year resulted in the issue of 17,675,000 ordinary shares of the Company and share premium of RMB28,012,000.

At the end of the reporting period, the Company had 69,507,000 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 69,507,000 additional ordinary shares of the Company, an additional share capital of approximately RMB48 and a share premium of approximately RMB44,246,000.

The Group recognised total share option expenses of RMB23,285,000 for the year ended 31 December 2016 (2015: RMB49,747,000).

(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 nil for the year ended 31 December 2016 (2015: RMB14,112,000).

(3) Award of ordinary shares

In 2016, one shareholder transferred 42,050,000 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.

In 2015, one shareholder transferred 13,000,000 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.

OTHER INFORMATION AND CORPORATE GOVERNMENT HIGHLIGHTS

Annual General Meeting

The 2017 annual general meeting (the “AGM”) of the Company is scheduled to be held on Friday, 26 May 2017. A notice convening the AGM will be published and dispatched to the Shareholders in accordance with the requirements of the articles of association of the Company and the Listing Rules in due course.

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

During the year ended 31 December 2016, the Company repurchased a total of 23,148,000 Shares on the Stock Exchange at an aggregate price paid of HK\$35,447,764.44 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
July 2016	6,202,500	1.58	1.31	8,693,880.19
October 2016	147,000	1.34	1.32	195,915.00
November 2016	3,631,500	1.33	1.25	4,713,554.95
December 2016	3,621,000	1.34	1.22	4,572,839.87
Total	23,148,000			35,447,764.44

All the repurchased Shares have been cancelled prior to 19 January 2017 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 2016.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2016 (the year ended 31 December 2015: HK3.0 cents).

Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017, 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, 26 May 2017. 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 Monday, 22 May 2017.

SCOPE OF WORK OF THE COMPANY'S AUDITORS IN RESPECT OF THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Company's auditors to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by the Company's auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Company's auditors on the preliminary announcement.

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 accounting standards and practices adopted by the Group and the consolidated financial statements of the Company for the year ended 31 December 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 for the year ended 31 December 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.

According 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. Lai Xiaoling, the independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 20 May 2016 due to other business commitments.

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 year ended 31 December 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 year ended 31 December 2016.

Publication of the Annual Results and 2016 Annual Report

This annual 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 annual 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 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 announcement, “PRC” does not include Taiwan, the Macau Special Administrative Region and Hong Kong
“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
“Director(s)”	director(s) of the Company
“Executive Director(s)”	the executive Director(s)
“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 People’s Republic of China
“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)
“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
“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 Guanghuan 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
“Shareholder(s)”	holder(s) of Shares
“Share(s)”	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 to it in the Listing Rules
“US\$” or “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 Internet” 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 as at the date of the Licence Agreement (29 March 2016) and held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao Jianjun, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2016

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

Hong Kong, 24 March 2017

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