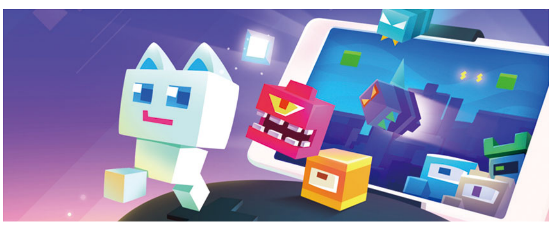
2016 ANNUAL REPORT



feiyu

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

feiyu

Simple & Interesting

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Independent Non-executive Directors
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

AUDIT COMMITTEE

Ms. LIU Qianli *(Chairwoman)*
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

REMUNERATION COMMITTEE

Ms. LIU Qianli *(Chairwoman)*
Mr. BI Lin
Mr. LAI Xiaoling

NOMINATION COMMITTEE

Mr. YAO Jianjun *(Chairman)*
Ms. LIU Qianli
Mr. MA Suen Yee Andrew

AUTHORISED REPRESENTATIVES

Mr. BI Lin
Mr. CHEUNG Man Yu

COMPANY SECRETARY

Mr. CHEUNG Man Yu

LEGAL ADVISERS

As to Hong Kong law:
Dentons Hong Kong
Suite 3201, Jardine House
1 Connaught Place
Central, Hong Kong

As to Cayman Islands law:
Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITORS

Ernst &Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue Central
Hong Kong

REGISTERED OFFICE

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

CORPORATE HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

The Industrial and Commercial Bank of China Xiamen Branch, Chengjian sub-branch
No. 270 Lujiang Road
Xiamen, Fujian Province
PRC

China Merchants Bank, Beijing Branch Jianwaidajie sub-branch
No. 0668, Block 6, Jianwai SOHO
No. 39 Dongsanhuan Zhonglu
Chaoyang District
Beijing, PRC

INVESTOR RELATIONS

Christensen China Limited
16/F, Methodist House
36 Hennessy Road
Wanchai, Hong Kong

COMPANY'S WEBSITE

www.feiyuhk.com

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

1022

DATE OF LISTING

5 December 2014

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For The Year Ended 31 December				
	2016 (RMB'000)	2015 (RMB'000)	2014 (RMB'000)	2013 (RMB'000)	2012 (RMB'000)
Revenue	**188,133**	322,147	339,071	145,037	158,729
Gross profit	**130,949**	267,665	296,778	138,338	153,791
(Loss)/Profit before tax	**(153,269)**	99,730	148,501	61,206	121,090
(Loss)/Profit after tax	**(160,915)**	94,988	142,368	50,957	121,090
(Loss)/Profit for the year attributable to owners of the parent	**(151,002)**	65,882	117,885	52,623	121,517
Non-IFRSs Measures					
– Adjusted net profit attributable to owners of the parent (unaudited)[1]	**5,474**	163,160	185,596	81,442	121,517
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic	**RMB(0.10)**	RMB0.04	RMB0.11	RMB0.05	RMB0.12
– Diluted	**N/A**	RMB0.04	RMB0.11	RMB0.05	RMB0.12

Note:

(1) 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, gain on fair value change of contingent consideration recognised for acquisitions and listing fees in connection with the Global Offering completed in 2014. 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 income attributable to owners of the parent for the year or accounting period.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2016 (RMB'000)	2015 (RMB'000)	2014 (RMB'000)	2013 (RMB'000)	2012 (RMB'000)
Assets					
Non-current assets	**881,150**	761,467	480,666	492,767	13,189
Current assets	**319,001**	564,323	746,653	189,728	106,937
Total assets	**1,200,151**	1,325,790	1,227,319	682,495	120,126
Equity and liabilities					
Total equity	**1,025,774**	1,070,443	1,150,106	548,101	57,933
Non-current liabilities	**10,547**	5,527	9,603	11,057	482
Current liabilities	**163,830**	249,820	67,610	123,337	61,711
Total liabilities	**174,377**	255,347	77,213	134,394	62,193
Total equity and liabilities	**1,200,151**	1,325,790	1,227,319	682,495	120,126

CHAIRMAN’S STATEMENT

Dear Shareholders,

I am pleased to present our annual report of the Group for the year ended 31 December 2016.

In 2016, the mobile game market became more competitive than ever both domestically and globally. With smartphone penetration slowing down, it was hard for the mobile game industry to continue to record explosive growth. In addition, the developers of PC games, and client-based games in particular, were stepping into the mobile game market bringing their accumulated capital, game development knowhow as well as established franchises, which increased competition in the hit-driven market. Despite the headwind, the mobile game industry still continued to see growth in 2016 and enjoyed hatching globally phenomenal products driven by new technology, such as *Pokémon Go*. We also noticed that a growing number of core PC gamers were moving to mobile games and mobile gamers were more willing to pay than in the previous years.

We had experienced a difficult period in 2016. The Group’s total revenue for the year ended 31 December 2016 was RMB188.1 million, decreasing by 41.6% year-over-year. The Group’s net loss attributable to owners of the parent for the year was RMB151.0 million as compared to a net profit of RMB65.9 million for the previous year. Adjusted net profit attributable to owners of the parent for the year ended 31 December 2016 was RMB5.5 million, representing a decrease of 96.6% compared with the results for the previous year. When our existing games reached the mature stage of their expected life cycles with revenue contribution declining and the newly launched games in 2016 underperformed, we made a hard decision to extend the development cycle of another new key game for a top tier user experience and a greater likelihood of hit title.

Making good games has always been the core of our corporate strategy, which is especially important in the hit-driven era. Building renowned intellectual property (“IP”) based on hit games is our mid-and-long term strategy. We will first focus on improving the IPs’ awareness and popularity, followed by licensing and monetisation, through both online and offline channels across different screens and industries.

We primarily launched Carrot Fantasy III (保衛蘿蔔3) and Jiong Xi You II (囧西遊2) in 2016. Shortly after the launch of the iOS version of Carrot Fantasy III (保衛蘿蔔3) on 16 June 2016, it climbed up to No. 1 in Apple Inc.’s app store for the iPhone in China in terms of free download and maintained the position for 17 consecutive days.

We received numerous awards in 2016 recognising the Group’s capability in creating top tier games and the excellent performance of our games. Carrot Fantasy III (保衛蘿蔔3) was awarded as The Most Popular Mobile Game for 2016 by 91.com and Super Phantom Cat (超級幻影貓) was rated as Annual Best 10 Games of 2016 by Apple Inc. in its China store. In addition, the Group was awarded as The Most Capable Developer of Mobile Games by Gamedog.

We are paving a way for game IP operation in China and were encouraged by the progress we made in 2016. For IP licensing products, following the cooperation with NICI and Maped set up, we licensed the IP of Carrot Fantasy (保衛蘿蔔) to SM Group and Wanchai Ferry (灣仔碼頭) for the application in their services and products to attract customers. In the meantime, working with Tencent, the publisher of Carrot Fantasy III (保衛蘿蔔3), we cooperated with a number of well-known companies to cross-promote our game and their products, which include but not limited to Jiangsu Satellite Television (江蘇衛視), Toyota, Pizza Hut, Hainan Airlines (海南航空), Master Kong (康師傅) and Sogou (搜狗).

CHAIRMAN'S STATEMENT

Looking ahead, we intend to develop our ongoing business and cultivate IP system via initiatives including launching new mobile games, with both domestic and international audience appeal, and licensing the IP of Carrot Fantasy (保衛蘿蔔) to more selective brands and products.

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

YAO Jianjun
Chairman

Hong Kong, 24 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

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 (囧西遊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 (美人寶鑒) 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).

MANAGEMENT DISCUSSION AND ANALYSIS

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, a Germany-based globally producer of high-quality brand name goods, and stationery licensed to 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 (我們戰斗吧), 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 (囧西遊) 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		
	2016	2015	Change %
	(RMB'000)	(RMB'000)	
Revenue	**188,133**	322,147	(41.6)
Cost of sales	**(57,184)**	(54,482)	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	**(771)**	(1,299)	(40.6)
(LOSS)/PROFIT BEFORE TAX	**(153,269)**	99,730	(253.7)
Income tax expense	**(7,646)**	(4,742)	61.2
(LOSS)/PROFIT FOR THE YEAR	**(160,915)**	94,988	(269.4)
Attributable to:			
Owners of the parent	**(151,002)**	65,882	(329.2)
Non-controlling interests	**(9,913)**	29,106	(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	**194**	**0.1**	398	0.1
Total	**188,133**	**100.0**	322,147	100.0

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 oversea 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 Jiaxi Global Limited ("Jiaxi 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 ("CGU") to which the goodwill related being 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.

Carrot Fantasy III (保衛蘿蔔3) was launched in June 2016. The underperformance was considered as an indication of impairment for the goodwill aforementioned. We performed the impairment assessment with assistance from an external valuer, and based on it, the recoverable amount of the goodwill was determined by the value in use of the CGU, which was lower than the carrying amount of the goodwill as of 31 December 2016. As the Company is not able to have a reliable estimate of fair value less cost of disposal, the recoverable amount of the CGU to which the goodwill is allocated has been determined based on a value in use calculation using cash flow projections based on financial budgets covering seven-year period. The key assumptions for the value in use calculations are those regarding the discount rates, budgeted income during the period and growth rates. We estimate discount rates using pre-tax rates of 24% that reflect current market assessments of the time value of money and the risks specific to the CGU. 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 operating margin and growth rate within the seven-year period have been based on management expectation. The growth rate used to extrapolate the cash flows of the relevant games beyond the relevant periods is 3%. There is no significant change in the valuation of the assumptions from those previously adopted except for the estimated income which was due to the underperformance of Carrot Fantasy III (保衛蘿蔔3). Details of the Group's impairment testing of goodwill is set out in Note 15 to the financial statements.

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 not being able to 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 %
	(RMB'000)	(RMB'000)	
(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	**5,474**	163,160	

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 Jiaxi Global. Please refer to the Company's announcements dated 31 March 2016, 18 August 2015 and 26 August 2015 and the circular dated 27 July 2015 for more details.

The 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 annual report 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	2015	Change %
	(RMB'000)	(RMB'000)	
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 annual report, 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 31 December		
	2016	2015	Change %
	(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 annual report, 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 annual report, 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 annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Event After the Year Ended 31 December 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Feiyu Technology International Company Limited ("Feiyu" or 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 Company and its subsidiaries (collectively known as the "Group" or "we") are principally engaged in the development and operation 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 Limited (the "Stock Exchange") on 5 December 2014.

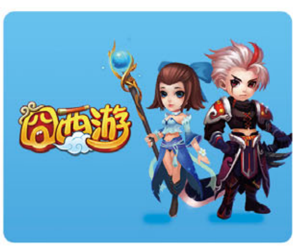
This is the Company's first Environmental, Social and Governance Report (the "ESG Report") which will disclose Feiyu's impact on the environment, society and its corporate governance for the year ended 31 December 2016 (the "Reporting Period"). Unless otherwise stated, this ESG Report covers the sustainable performance and initiatives of the Company's Hong Kong office and its game development business in China. The content is in compliance with the applicable disclosure requirements of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The corporate governance section is addressed separately in the "Corporate Governance Report" section of the annual report.

The Company welcomes your valuable comments and suggestions in relation to this ESG Report and Feiyu's sustainable performance. Please send any feedback to IR@feiyu.com.

ABOUT FEIYU

We are a reputable developer and operator of mobile games and web games, with a strategic focus on mobile games. Our most successful games are Shan Guo Zhi Ren (三國之刃), Shen Xian Dao (神仙道), Da Hua Shen Xian (大話神仙) and Carrot Fantasy (保衛蘿蔔). We have received various awards and recognition in respect of the quality and popularity of our products and services. We use the item-based revenue model for all of our games. Under the item-based revenue model, players can play the basic features of the games for free. We generate revenues when players purchase virtual currency that they may subsequently exchange for virtual items and premium features that enhance their in-game experience by, for example, enhancing the powers, abilities, attractiveness and social interaction of their characters, or enabling them to advance in the game more quickly.




OUR VISION, OBJECTIVE AND BUSINESS PHILOSOPHY

Vision

- To be a pioneer of online game company.

Objective

- Continue to develop high quality RPG mobile and casual mobile games
- Continue to grow our IP licensing business
- Continue to penetrate into new overseas markets through introducing our existing and new games to overseas players and providing them with simple and interesting game-playing experience

Business philosophy

- "Simple and interesting" is our business philosophy.

OUR APPROACH TO SUSTAINABILITY DEVELOPMENT

As a good corporate citizen, we are committed to creating sustained value for stakeholders by incorporating environmental, social and governance considerations into our operation with an aim to be a positive force to our environment and the wider community. The Group upholds that sustainable development not only encapsulates our environmental performance but is also rooted in our core business practices and our relationship with our shareholders, employees, users and suppliers. Details of our management approach in environmental and social aspects can be found in the different sections of this Report.

LISTENING TO OUR STAKEHOLDERS

We believe that understanding the views of our stakeholders lays a solid foundation to the long-term growth and success of the Group. We develop multiple channels to a broad spectrum of stakeholders in order to provide them with the opportunity to express their views on our sustainability performance and future strategies. To reinforce mutual trust and respect, we are committed to maintaining enduring communication channels, both formally and informally, with stakeholders to enable us to better shape our business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships. We have identified employees, players, suppliers and business partners, shareholders, government and the community at large as our key stakeholder groups. The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

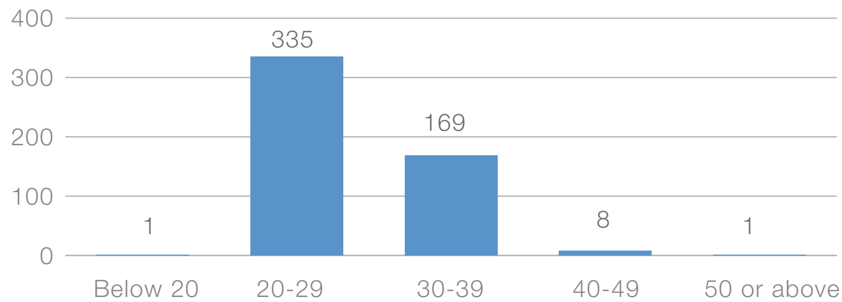
OUR PEOPLE

We believe that our success depends on our human capital. We attract and retain our employees through providing comfortable office environment, pleasant work atmosphere, various staff welfare and competitive employee compensation.

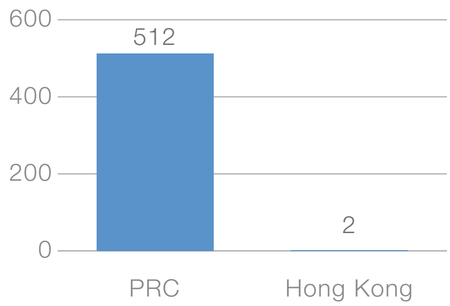
As of 31 December 2016, we employed a total of 514 employees across China and Hong Kong, including 347 male staff members and 167 female staff members. Given that our business is information technology related, male would normally be more than female. Nevertheless, we are committed to hiring employees without taking into consideration of nationality, gender, age, family status and other facts irrelevant to competencies and qualifications of the candidates during the recruitment process.

Our total workforce by age, geographical region and employment type as of 31 December 2016 are shown in the following charts:

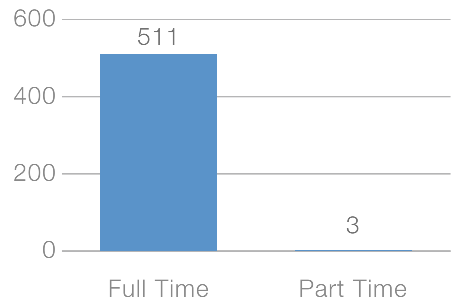
Distribution of employee by age group (number of employees)



Distribution of employee by region (number of employees)



Distribution of employee by employment type (number of employees)



EMPLOYMENT BENEFIT

Our Directors and employees receive compensation in the form of salaries, bonuses, share options, restricted share units ("RSUs") and other allowances and benefits-in-kind, including our Company's contribution to the pension scheme on their behalf. We determine the salaries of our employees based on their performance, experience, competence and market comparables. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board. To ensure our salary structure is fair and competitive, we reviewed the remuneration and appraises employee performance on annual basis.

As we understand that employees are our most valuable assets, we offered competitive remuneration packages with compensation and benefits for our employees, which include five-day work week arrangement, discretionary bonus, mandatory provident fund scheme, social insurance, share options, transportation allowance, training subsidies, long serving employees awards, free meal (including breakfast, lunch, tea and dinner), interest-free loan for purchasing motor vehicles and properties and company shuttle bus, etc.

Whenever there is resignation or laid off, human resource personnel and department head would carry out exit-interview with the staff to find out the underlying reasons of departure or dismissal, and to ensure full compliance with the relevant employee laws and regulations.

Employee association has also been established to represent employees with respect to the promulgation of by-laws and internal protocols. Such employee representative conference does not represent employees for the purpose of collective bargaining. We believe that we maintain a good working relationship with our employees and we did not experience any significant labor disputes or any difficulty in recruiting staff for our operations during the Reporting Period.

In addition, as the majority of our staff and our operation are based in the PRC, PRC National Labour Law ("中華人民共和國勞動法"), PRC Social Insurance Law ("中華人民共和國社會保險法") and Regulations on the Administration of Housing Fund ("住房公積金管理條例") would have significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare. During the Reporting Period, we were not aware of any material non-compliance relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

WORK-LIFE BALANCE

We attach great importance to the psychological and physical well-being of our people. We organize recreational and sport activities regularly to promote work-life balance and allow employees to relax while striving for career advancement. We reinforce team spirit and a stronger sense of belongings through these activities. In addition, gym room and entertainment room are also maintained for staff leisure.

Recreational and sport activities

Gym room

Entertainment room

HEALTH AND SAFETY

Although our operation is predominantly office-based, we adhere to PRC National Labour Law and other applicable laws and regulations to provide a safe and healthy workplace in order to protect our employees from occupational hazards. We achieved this goal by implementing the following key measures:

- Arranging annual medical checkup for our employees to ensure our people's mental and physical health
- Providing and maintaining in all workplaces under the Group's control a working environment which is safe and poses no threat to health
- Conducting fire drill annually
- Carrying out inspection for any unsafe condition and fix it immediately

Additionally, to enhance our indoor air quality and well-being of all employees, we create smoke-free workplaces for our employees. Smoking is prohibited in all enclosed areas within the offices, without exception.

During the Reporting Period, we were not aware of any material non-compliance with the relevant laws and regulations that have significant impact to the Group in providing a safe working environment and protecting employees from occupational hazards.

DEVELOPMENT AND TRAINING

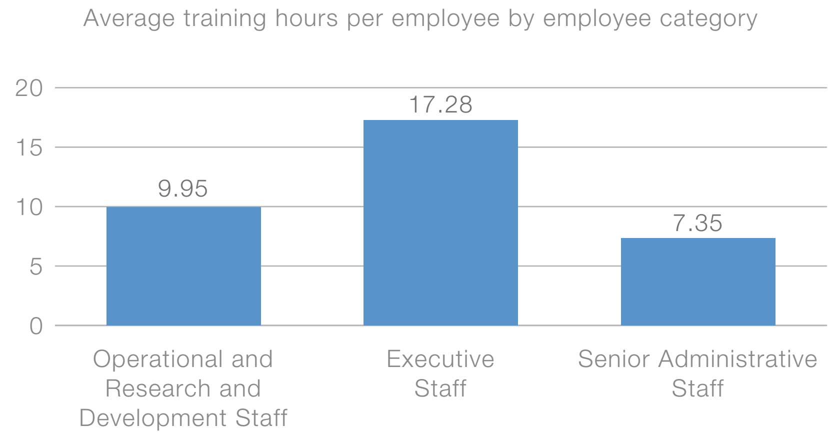
We believe the talents of our development teams are one of the keys to our success and we encourage all of our employees to suggest creative ideas and concepts for game development. We employ a number of methods to ensure that we are able to attract and retain the best development talents available, such as actively engaging with local universities and attending conventions. We provided frequent and timely training to our development teams to ensure that their skills remain sharp, and foster interaction, collaboration, and the sharing of information and experiences among our development teams through regular internal planning meetings as well as internal and external development competitions.

We have also provided customized training to our new hires, all of whom have designated mentors, who are experienced employees in relevant teams or departments, and provide new employees with constant on-the-job training.

To enrich our employees' knowledge in discharging their duties, we also encourage and sponsor them to attend relevant courses or seminars. We have offered the following training topics to our employees during the Reporting Period:

- Plan Fry ("魚苗計劃") provided for new employees
- Management skill training
- Software training, including docker, visual design and genetic algorithm

Average training hours of our employees for the Reporting Period are shown as below:



LABOUR STANDARDS

The principal business of the Group requires skilled labour and professionals to competently carry out their duties. We strictly prohibit child labour and forced labour. As prevention, during the hiring process, our human resources department verifies the personal information, including age, of the applicants by checking their identity documents. The Group was not aware of any non-compliance with relevant rules and regulations on preventing child or forced labour during the Reporting Period.

SUPPLY CHAIN MANAGEMENT

We have been dedicated to doing business with honesty and integrity in stringent compliance with applicable local laws and regulations. Since we recognized that how we cooperate with our suppliers and business partners has a significant impact on the quality of our products and services as well as our reputation, we expect our suppliers and business partners to operate in a manner that demonstrates best practices in connection with environmental and social matters.

Our suppliers include primarily third-party companies from which we purchase and lease servers and to which we outsource related to development and design of our game operation systems. To ensure the quality and safety of our network infrastructure, we usually purchase servers from qualified and reliable suppliers. We select server rental service providers not only based on the historical business relationships with us, the compatibility of their products with our requirements, prices, customer service and reputation, but also the working environment and working hour of their employees.

PRODUCT QUALITY

We are committed to providing the best playing experience to our users. We conducted periodic reviews, usually once a month, to troubleshoot and adjust game design according to preliminary feedback received from employees with regard to their gaming experience and performance. Our development teams are responsible for fixing game errors detected during internal reviews.

Furthermore, several rounds of internal test would be conducted before launching a game so as to resolve all major technological issues and software bugs that may exist.

CUSTOMER SERVICE

Customer service team has been established to provide services and feedback to our players in a timely manner. Players may submit inquiries, feedback or complaints relating to game operation via our toll-free number, instant messaging or dedicated online discussion forums. We currently provide customer service 24 hours a day, seven days a week. Upon receipt of complaints or inquiries from our players relating to functions and features of our games, our customer service team will respond promptly and provide a detailed explanation and instructions to guide the players to resolve their issues. Complaints relating to in-game delivery of virtual currency and virtual items and premium features, programming errors or technical issues or claims for damages are reported to the project teams of the relevant games, and they will be responsible for resolving the reported complaints.

We believe that outstanding customer service plays a significant role in retaining players. In serving our players, our customer service team also collects valuable first-hand player experience and feedback, which has helped us better understand player preferences and demands and further enhance our games.

PERSONAL DATA PRIVACY

We are committed to protecting privacy and confidentiality of personal data of our employees, customers, business partners and other identifiable individuals.

We have adopted measures to protect user data we have accumulated and prevent technical issues in our network infrastructure and information technology system. Our information technology department is responsible for protecting user data and ensuring the stability of our network infrastructure and information technology system. We use various information management systems in our operations. To ensure information security, employees' access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employee seniority and department function so that certain information can only be obtained on an as-need basis.

We have adopted various policies on database operation to prevent information leakage and loss of data. Key information in the database such as user password is protected by robust encryption algorithms. We also keep records of all database operations and non-routine database operations are not permitted unless such operations are necessary and have been approved by our Chief Technology Officer. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers at different locations on a weekly basis to reduce the risk of data loss. Our information technology department conducts backup recovery tests semi-annually to examine the status of this back-up system. Further, most of our full-time employees are required to sign confidentiality agreement, pursuant to which they undertake to keep confidential any user data and operational, financial and product information of the Group that they obtain by virtue of their employment with the Group.

With the above measures, we received no complaints concerning breaches of client privacy and losses of client data.

The Group was not aware of any non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress during the Reporting Period.

INTELLECTUAL PROPERTY RIGHTS

We rely on copyright, trademark, trade secret and other intellectual property law, as well as confidentiality and license agreements with our employees, licensees, business partners, and others to protect our copyrights, trademarks, service marks, trade secrets, and other intellectual property, all of which are critical to our success.

We have implemented the following key policies and procedures to ensure the efforts of our software programmers and the assets of our Group are properly protected so as to create an environment that our creativity and hard work can be rewarded.

- Our employees are generally required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf are our property, and assigning to us any ownership rights that they may claim in those works.

- We enter into standard employment contracts with most of our executive officers, managers and employees. These contracts typically include a confidentiality provision effective during and up to one year after their employment with us.

- Our contracts with distribution and publishing platforms and licensees prohibit the unauthorized use of our brands, images, characters and other intellectual property rights. However, despite our precautions, third parties may obtain and use intellectual property that we own or license without our consent. Unauthorized use of our intellectual property by third parties, and the expenses that we may incur in protecting our intellectual property rights may materially and adversely affect our business.

- For developing a new product, our senior management is required to provide approval. The proposal materials are also subject to review by our legal department, which conducts searches to ensure that the idea and design embedded in our new product proposals would not infringe upon any third parties' existing intellectual property rights. Our legal department also ensures the timely application for trademark, copyright or patent registrations for, as well as the timely filing with relevant authorities of, our new products.

- We would also engage external counsel or external intellectual property agent to assist us in legal compliance and the prevention and resolution of issues related to intellectual property rights, if necessary.

ANTI-CORRUPTION

Our corporate culture handbook contains guidelines regarding best commercial practice, work ethics and the prevention of fraud, negligence and corruption. Each employee is required to provide a written confirmation that he or she understands and is committed to observing the requirements set forth in our employee handbook/corporate culture handbook. We have also made available an anonymous reporting channel through which potential violation of our internal policies or illegal acts at all levels of the Group can be timely reported to the management and appropriate measures can be taken to minimize damage.

No significant risks relating to corruption were identified during the Reporting Period. There were no confirmed incidents in relation to corruption or public legal cases brought against the Group or its employees. No whistleblowing disclosures were received during the year.

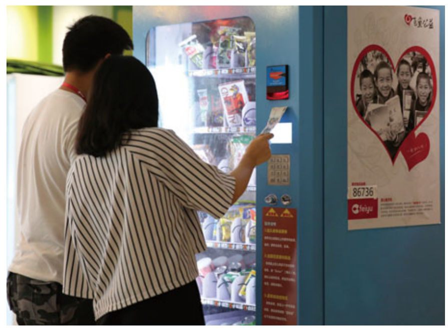
The Group was not aware of any non-compliance with relevant laws and regulations that had a significant impact on the issuer relating to bribery, extortion, fraud and money laundering during the Reporting Period.

CONTRIBUTIONS TO THE SOCIETY

Being a responsible corporate citizen, we are constantly aware of the community needs and take up our corporate responsibility with best efforts to make contribution to the community by participating and sponsoring various fund-raising events and community activities.

As a responsible enterprise, we care about our next generation. The Group has been dedicated to community services so as to raise public's attention to the education in children. During the Reporting Period, we have participated the following fund-raising events and community activities:

- Vending machines have been installed at each floor of our office. Each purchase made by our employees is a pass of care, because the income made from the vending machine would be put under the Feiyu Community Fund and used to develop a canteen for a primary school and sponsor other community activities. The income generated from the vending machines for the Reporting Period was approximately RMB105,800.



- RMB110,000 has been donated to Xin Tian Organization ("信天謹遊") for sponsoring the breakfast of Yunnan Primary School for one year.

- RMB3,000 has been donated to Xiamen University Education Development Foundation ("廈門大學教育發展基金會") for the development of School of Economics.

- We have also participated clothing donation activities organized by Xiamen Strait Charity Service Center ("廈門市海峽公益服務中心").

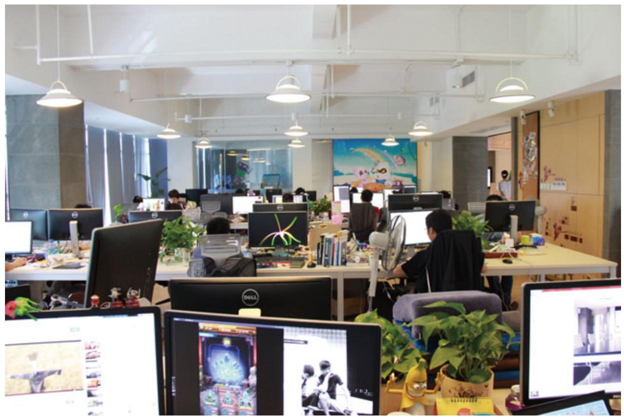
- We have donated RMB5,280 during the Reporting Period to support Readora ("星囊計劃"). Readora aims to develop children's reading habits by distributing books and related school supplies to the less developed areas in the PRC.

In honor of our efforts, we have been awarded as Caring Company ("愛心企業") by Xiamen Strait Youth Founder Association ("廈門市兩岸青年創客聯合會") in November 2016.

ENVIRONMENTAL

Our Group has sought to operate in a responsible, transparent and sustainable way. We commit to protecting the environment continuously by promoting green office practices. Our Group improves employees' awareness of environmental protection and encourages them to bring their own plants for making the office green.

Our reception area



Our working environment

The Group was not aware of any material non-compliance with the relevant laws and regulations that have significant impact on the Group related to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous waste during the Reporting Period.

EMISSIONS AND USE OF RESOURCES

During the Reporting Period, the indirect greenhouse gas ("GHG") emission mainly generated from the consumption of purchased electricity. As energy consumption accounts for a major part of our GHG emissions, various energy saving measures have been undertaken to improve energy efficiency and reduce energy consumption of the Group's operations.

Our greenhouse gas emissions are primarily generated from the consumption of purchased electricity in our office operation. In order to reduce the emission, we have been implementing the following key measures:

ENERGY MANAGEMENT

- Deploy natural light as much as feasible
- Deploy LED lighting for most of the office areas
- Consider energy efficient level when selecting electrical appliances
- Encourages employees to switch off all computers, air-conditioners and other office equipment at the end of each working day
- Clean the filter of air-conditioners annually to improve air flow efficiency
- Set the temperature of air-conditioners to an energy-efficient level, best at 24–26 °C
- If feasible, instead of taking overseas business trips, we encourage employees to conduct video conferences or use other electronic communication means to reduce carbon footprints from flights

WASTE REDUCTION

Our wastes are mainly classified into two categories in our business, which are general wastes (household wastes) and recyclable wastes respectively. We adopted 3Rs strategy in our waste management: Reduce, Reuse and Recycle. We have implemented the following key measures for waste reduction:

- Technology is applied to help with saving resources by promoting the use of electronic communication channels, e.g. sending information by emails and e-fax
- Encourage our staff to use double-sided printing and copying
- Recycling box has deployed for used paper collection
- Use durable items, such as ceramic cups and reusable spoons instead of disposable cups or wooden stirrers
- Cardboard and plastic bottles are collected for recycling on a daily basis
- Dispose of rechargeable batteries in designated collection boxes
- Participate in toner bottles and cartridges recycling programme
- Install energy efficient hand dryers in the restrooms to reduce the consumption of paper towels

The Group did not generate any hazardous waste in the ordinary course of business.

WATER USE MANAGEMENT

Our operation does not involve high water consumption. Most of the water consumed is for toilet flushing, water tap and drinking water.

To avoid unnecessary water consumption from daily operation, we have implemented the following key measures:

- Dual-flush toilets are used for saving water
- Check the hoses and pipes for leaks, cracks, and other damage regularly and repair them in a timely manner

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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors during the year ended 31 December 2016 and up to the date of this annual report were:

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

Independent Non-executive Directors
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors
YAO Jianjun (姚劍軍), aged 35, is the founder of the Group and a controlling shareholder (as defined in the Listing Rules) of the Company. He joined the Group on 12 January 2009 and was appointed as Chairman, Executive Director and Chief Executive Officer of the Company on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as Chairman of Xiamen Guanghuan since 1 January 2011 and director of Xiamen Feiyou since 24 June 2014, director of Xiamen Zhangxin Interactive Technology Co., Ltd. since 27 October 2014, director of Xiamen Yidou since 3 September 2014, director of Xiamen Feichang since 5 May 2015, director of Xiamen Xiyu since 27 May 2015, director of Xiamen Yufei Xingkong since 1 June 2015, director of Milin Feiyu since 10 July 2015, director of Xiamen Feiyu Wuxian since 24 July 2015, director of Jiaxi Global since 20 August 2015, director of Beijing Weian Haixing since 21 October 2015, director of Xiamen Hao Hao Wan since 4 January 2016.

Mr. Yao also acted as a director of Xiamen Plump Fish Cultural Media Co., Ltd. (廈門小魚飛飛文化傳媒有限公司) (a company designing, producing and distributing cartoons, films, TV dramas, online dramas and other visual products) since 25 November 2015, director of Xiamen Zhangxin Internet (a company held as to 50% equity interests by each of Mr. Yao and Mr. Chen Jianyu as at the date of the licensing agreement (29 March 2016) and held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2016) since 18 December 2015, director of Xiamen Kangaroo Family Information Technology Company Ltd. (廈門袋鼠家信息科技有限公司) (a company developing parenting education app) since 4 January 2016, director of eName Technology Co., Ltd. (廈門易名科技股份有限公司), a company providing domain name services and listed on China New Third Board) from 18 December 2015 to 10 December 2016 and the general partner of Xiamen Xiao Yu Fei Fei Investment Partnership (limited partnership) since 17 October 2016.

Mr. Yao has more than 15 years of experience in the internet industry, including establishing and operating various websites and developing online games. He had founded a number of websites, including CNZZ.com (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), Chinaz.com (站長之家) (a website providing various technology and other services to PRC webmasters), Wo Ai Wo Wang (我愛我網), Yongchun Information Habour (永春信息港) and Changan City Gaming Community (長安城遊戲社區) (a website operating martial arts multiple user domain games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China.

Mr. Yao is a founder of Xiamen Guanghuan. He has also been the executive director of Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技股份有限公司, named 廈門享聯科技有限公司 before the share reform in 2016), an internet technology development and services company listed on the China New Third Board on 11 January 2017, since August 2013 and served as its chairman since 11 July 2016, and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of Chinaz.com (站長之家).

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

CHEN Jianyu (**陳劍瑜**), aged 34, joined the Group on 31 December 2013 and was appointed as Executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen has also been director of Milin Feiyou since 1 July 2015, director of Beijing Feiyu Wuxian since 10 June 2015 and director of Beijing Feiyu Xingkong since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen also acted as director of Beijing Feiyu Interactive Cultural Media Co., Ltd. (北京飛娛互動文化傳媒有限公司), a newly-founded indirect subsidiary of Xiamen Zhangxin Internet (a company held as to 50% equity interests by each of Mr. Yao Jianjun and Mr. Chen Jianyu as at the date of the licensing 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) since 5 April 2016 and director of Guangzhou Popcorn Animation Technology Co., Ltd. (廣州市爆米花動畫科技有限公司, an animation company) since 26 August 2016.

Mr. Chen has over 14 years of experience in the internet industry and has developed, or been responsible for developing, a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

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

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

BI Lin (畢林), aged 35, is a founder of the Group and one of the controlling shareholders of the Company. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Feiyu Hong Kong since 25 March 2014, director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Youli from 19 September 2011 to 4 February 2012, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangyu since 10 November 2014 and director of Xiamen Guangqu since 10 November 2014.

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

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

SUN Zhiyan (孫志炎), aged 36, joined the Group on 31 December 2013 and was appointed as Executive Director and Chief Technology Officer of the Company on 26 August 2014. He is in charge of technology development and support for the Group's games.

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

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

DIRECTORS AND SENIOR MANAGEMENT

LIN Jiabin (**林加斌**), aged 35, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin has also been the director of Xiamen Youli since 5 February 2012 and the director of Xiamen Fei Xiang Yue Investment Management Co., Ltd. (廈門飛享悅投資管理有限公司) since 9 August 2016.

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

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

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

LIN Zhibin (**林志斌**), aged 35, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

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

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

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

Independent Non-executive Directors

LIU Qianli (劉千里), aged 41, was appointed as an Independent Non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 12 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of China EDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of Main One Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

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

LAI Xiaoling (賴曉凌), aged 41, was appointed as an Independent Non-executive Director on 17 November 2014. He is a member of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 12 years of experience in investment and business management. He has been a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, since June 2013. He was primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management.

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

MA Suen Yee Andrew (馬宣義), aged 44, was appointed as an Independent Non-Executive Director on 17 November 2014. He is a member of the Audit Committee and the Nomination Committee.

Mr. Ma has over 17 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

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

Biographical Details of the Senior Management

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

CHEUNG Man Yu (張文宇), aged 42, joined the Group on 8 February 2014 and was appointed as Chief Financial Officer on 26 August 2014, and is responsible for the Group's overall financial reporting and management.

Mr. Cheung has over 19 years of experience in financial reporting, management and services. Since December 2012, he has been an independent non-executive director and a member of the audit committee of China LESSO Group Holdings Limited (中國聯塑集團控股有限公司), a manufacturer of plastic pipes and pipe fittings listed on the main board of the Stock Exchange (Stock Code: 2128). He also served as the vice general manager of ZTE Urban Digital Culture Media (Beijing) Co., Ltd. (中興都市數字文化傳媒(北京)有限責任公司), a media company, from December 2012 to January 2014, primarily focusing on its financial and internal control matters. From February 2011 to November 2012, Mr. Cheung was the vice president of China Forestry Holdings Co., Ltd. (中國森林控股有限公司), a forestry resource management and timber log processor operating in the PRC, primarily focusing on its financial and internal control matters. Prior to that, from April 2004 to March 2011, Mr. Cheung worked as a vice president or director at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan Securities (Asia Pacific) Limited. Mr. Cheung worked as a manager at the audit department of Ernst & Young, an international accounting firm, from February 2000 to April 2004.

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

XU Yiqing (**許藝清**), aged 39, joined our Group on 10 December 2014, and was appointed as our vice president on the same day. She is responsible for human resources development and administrative and organisational management.

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

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

Yang Guangwen (**楊光文**), aged 36, joined our Group on 27 April 2015 and was appointed as our vice president on 28 April 2015. He is responsible for the setting up our Chengdu R&D center of our overall management of production planning, design and development of the games of the Group's Chengdu subsidiaries.

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

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

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the activities during the year ended 31 December 2016 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the sections headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2016 if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors" of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2016, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 86 to 151 of this annual report.

FINANCIAL SUMMARY

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

USE OF PROCEEDS FROM IPO

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 IPO/Listing. We have, and will continue to utilise the net proceeds from the IPO for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2016 are set out in the Consolidated Statements of Changes in Equity on page 91 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2016 are set out in Note 38 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB559,216,000 (as at 31 December 2015: RMB475,940,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2016 are set out in Note 13 to the financial statements.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

Details of the Company's share capital and share incentive schemes are respectively set out in Notes 26 and 27 to the financial statements and the sections headed "Reports of Directors – Pre-IPO Share Option Scheme", "Reports of Directors – Post-IPO Share Option Scheme", "Reports of Directors – Pre-IPO RSU Plan" and "Reports of Directors – Post-IPO RSU Plan" below.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2016 are set out in Note 1 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for less than 30% of the Group's total revenue for the year ended 31 December 2016. As we have kept a good cooperation with our largest customer, Shenzhen Tencent Computer System Co., Ltd., for more than 2 years, approximately 18.1% of the total revenue for the year was derived from Tencent.

During the year ended 31 December 2016, the percentage of the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 4.7% of the Group's cost of sales, among which the largest supplier accounted for approximately 2.1% of the Group's cost of sales.

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

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2016 are set out in Note 24 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in Note 26 to the financial statements.

CHARITABLE DONATIONS

During the year, the Group donated RMB113,000 (2015: Nil) to Not-for-profit organisations.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS

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

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

Independent Non-executive Directors
Ms. LIU Qianli
Mr. LAI Xiaoling
Mr. MA Suen Yee Andrew

In accordance with article 84(1) of the Articles of Association, Ms. LIU Qianli and Messrs. LAI Xiaollin and MA Suen Yee Andrew will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 39 to 45 of this annual report.

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

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

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and Note 33 to the financial statements in this annual report. The annual remuneration of the Directors and senior management whose profiles are included in the section headed "Directors and Senior Management" of this annual report fell within the following bands:

Remuneration band (RMB)	**Number of individuals in year 2016**
Below 1,000,000	7
1,000,000–2,000,000	3
2,000,001–3,000,000	1
3,000,001–4,000,000	2
4,000,001–5,000,000	–
Over 5,000,000	1

REMUNERATION POLICY

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

The remuneration of the 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. Details of the incentive schemes are set out under the sections headed "Reports of Directors – Pre-IPO Share Option Scheme", "Reports of Directors – Post-IPO Share Option Scheme", "Reports of Directors – Pre-IPO RSU Plan" and "Reports of Directors – Post-IPO RSU Plan" below and Note 27 to the financial statements.

During the year ended 31 December 2016, the Company considered the relationship with employees was well and the turnover rate is acceptable.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of these Independent Non-executive Directors. The Company considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2016.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in Shares

Name of Director/ chief executive	Capacity	Number of ordinary shares held[1] (long position)	Approximate percentage of shareholding[8] %
YAO Jianjun	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 2]	481,399,000	30.68
CHEN Jianyu	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 3]	256,739,000	16.36
BI Lin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 4]	127,470,000	8.12
SUN Zhiyan	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 5]	66,337,000	4.23
LIN Jiabin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 6]	44,890,500	2.86
LIN Zhibin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 7]	44,890,500	2.86

1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust and The Zhi Family Trust, six trusts in total.

2 The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 481,399,000 Shares held by YAO Holdings Limited pursuant to Part XV of the SFO.

3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN Jianyu (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,739,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.

4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI Lin (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 127,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

5 The entire share capital of Eastep Holdings Limited is wholly owned by Ace Kingdom Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Sun Family Trust, which was established by Mr. SUN Zhiyan (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. SUN and his family members. Mr. SUN (as founder of The Sun Family Trust) and Ace Kingdom Limited are taken to be interested in 66,337,000 Shares held by Eastep Holdings Limited pursuant to Part XV of the SFO.

6 The entire share capital of LINT Holdings Limited is wholly owned by Supreme Top Global Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Lin Family Trust, which was established by Mr. LIN Jiabin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Lin Family Trust) and Supreme Top Global Limited are taken to be interested in 44,890,500 Shares held by LINT Holdings Limited pursuant to Part XV of the SFO.

7 The entire share capital of LINCHEN Holdings Limited is wholly owned by Sheen Field Limited, as the nominee of TMF (Cayman) Ltd., the trustee of The Zhi Family Trust, which was established by Mr. LIN Zhibin on 13 August 2014 as a discretionary trust for the benefit of Mr. LIN and his family members. Mr. LIN (as founder of The Zhi Family Trust) and Sheen Field Limited are taken to be interested in 44,890,500 Shares held by LINCHEN Holdings Limited pursuant to Part XV of the SFO.

8 The percentage is calculated on the basis of 1,569,261,000 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2016, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Long position in Shares

Name of Shareholder	Capacity	Number of Ordinary Shares held (long position)	Approximate percentage of shareholding[7] %
TMF (Cayman) Ltd.[1]	Trustee of the family trusts	1,115,300,000	71.07
YAO Holdings Limited[2]	Beneficial owner	481,399,000	30.68
Jolly Spring International Limited[2]	Interest in a controlled corporation	481,399,000	30.68
Mr. YAO Jianjun[2]	Founder of a discretionary trust Interest in a controlled corporation	481,399,000	30.68
Fishchen Holdings Limited[3]	Beneficial owner	256,739,000	16.36
Honour Gate Limited[3]	Interest in a controlled corporation	256,739,000	16.36
Mr. CHEN Jianyu[3]	Founder of a discretionary trust Interest in a controlled corporation	256,739,000	16.36
BILIN Holdings Limited[4]	Beneficial owner	127,470,000	8.12
Rayoon Limited[4]	Interest in a controlled corporation	127,470,000	8.12
Mr. BI Lin[4]	Founder of a discretionary trust Interest in a controlled corporation	127,470,000	8.12
Fine Point Development Limited[5]	Beneficial owner	93,574,000	5.96
Mr. DONG Ting[6]	Founder of a discretionary trust Interest in a controlled corporation	92,195,000	5.87

Notes:

1 TMF (Cayman) Ltd. is the trustee of The Yao Family Trust, The Bi Family Trust, The Chen Family Trust, The Sun Family Trust, The Lin Family Trust, The Zhi Family Trust and The Dong Family Trust, seven trusts in total.

2 The entire share capital of YAO Holdings Limited is wholly owned by Jolly Spring International Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Yao Family Trust, which was established by Mr. YAO Jianjun (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. YAO and his family members. Mr. YAO (as founder of The Yao Family Trust) and Jolly Spring International Limited are taken to be interested in 481,399,000 Shares held by YAO Holdings Limited pursuant to Part XV of the SFO.

3 The entire share capital of Fishchen Holdings Limited is wholly owned by Honour Gate Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Chen Family Trust, which was established by Mr. CHEN Jianyu (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. CHEN and his family members. Mr. CHEN (as founder of The Chen Family Trust) and Honour Gate Limited are taken to be interested in 256,739,000 Shares held by Fishchen Holdings Limited pursuant to Part XV of the SFO.

4 The entire share capital of BILIN Holdings Limited is wholly owned by Rayoon Limited, as nominee of TMF (Cayman) Ltd., the trustee of The Bi Family Trust, which was established by Mr. BI Lin (as the settlor) on 13 August 2014 as a discretionary trust for the benefit of Mr. BI and his family members. Mr. BI (as founder of The Bi Family Trust) and Rayoon Limited are taken to be interested in 127,470,000 Shares held by BILIN Holdings Limited pursuant to Part XV of the SFO.

5 Fine Point Development Limited acts as nominee of TMF (Cayman) Ltd., the trustee of The Dong Family Trust, which was established by Mr. DONG Ting (as the settlor) on 19 June 2015 as a discretionary trust for the benefit of Mr. DONG and his family members. Mr. DONG (as founder of The Dong Family Trust) is taken to be interested in a maximum of 93,574,000 Shares in which Fine Point Development Limited is interested pursuant to Part XV of the SFO.

6 These interests represented:

(a) 1,877,500 options granted to Mr. DONG Ting, which were subject to certain vesting schedule and conditions pursuant to the Pre-IPO Share Option Scheme, details of which are set out in the section headed "Pre-IPO Share Option Scheme" in this Annual Report; and

(b) a maximum of 90,317,500 Shares in which Fine Point Development Limited is interested pursuant to Part XV of the SFO.

7 The percentage is calculated on the basis of 1,569,261,000 Shares in issue as at 31 December 2016.

Other than as disclosed above, as at 31 December 2016, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the year ended 31 December 2016 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any body corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2016 and up to the date of this annual report.

IMPLEMENTATION OF THE DEED OF NON-COMPETITION

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

The independent non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2016. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a Controlling Shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2016 and up to the date of this annual report.

PRE-IPO SHARE OPTION SCHEME

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

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe for an aggregate of 105,570,000 Shares, which represented approximately 6.73% of the Shares in issue as at 31 December 2016, to senior management of the Group and other grantees. As at 31 December 2016, 38,020,000 Shares granted pursuant to the Pre-IPO Share Option Scheme, which represented approximately 2.42% of the Shares in issue as at 31 December 2016 and 2.45% of the Shares in issue as at the date of this annual report, remained unvested to the named grantees.

The table below sets out details of the outstanding options granted to senior management and other grantees under the Pre-IPO Share Option Scheme and movements during the year ended 31 December 2016:

Number of Shares

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2016	Exercised during the year ended 31/12/2016	Cancelled/ Lapsed during the year ended 31/12/2016	Outstanding as at 31/12/2016
Senior management									
Ms. ZHOU Yandan	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	4,510,000	4,342,000	(959,500)[3]	(3,382,500)[1]	–
Mr. CHEUNG Man Yu	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	6,430,000	6,430,000	(1,607,500)[3]	–	4,822,500
Mr. DONG Ting	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	7,510,000	7,510,000	(1,877,500)[3]	(3,755,000)[2]	1,877,500
Ms. XU Yiqing	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	2,250,000	2,250,000	–	–	2,250,000

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2016	Exercised during the year ended 31/12/2016	Cancelled/ Lapsed during the year ended 31/12/2016	Outstanding as at 31/12/2016
Senior management									
Mr. LIU Tao(5)	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	1,130,000	1,130,000	(276,000)(3)	–	854,000
Other Grantees									
Aggregate of 117 other grantees	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	83,740,000	77,591,000	(12,954,500)(3)	(8,933,500)(4)	55,703,000
Total					**105,570,000**				**65,507,000**

Notes:

(1) 3,382,500 share options granted to Ms. Zhou Yandan lapsed immediately upon her resignation as vice president of the Company due to her personal reasons on 16 February 2016.

(2) 3,755,000 share options granted to Mr. Dong Ting lapsed immediately upon his resignation as vice president of the Company due to his personal reasons on 31 December 2016.

(3) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$1.80.

(4) 8,933,500 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2016.

(5) Mr. Liu Tao has tendered his resignation as vice president of the Company due to his personal reasons, effective from 28 February 2017.

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

POST-IPO SHARE OPTION SCHEME

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

Pursuant to the Post-IPO Share Option Scheme, the Company has granted options to subscribe for (i) 3,000,000 Shares to a senior management on 10 June 2015 and (ii) 1,000,000 Shares to an eligible participant on 5 July 2016. As at 31 December 2016, the total number of options granted under the Post-IPO Share Option Scheme was 4,000,000 Shares, which represented approximately 0.25% of the Shares in issue as at 31 December 2016. As at 31 December 2016, 1,000,000 Post-IPO Share Options, which represented approximately 0.06% and 0.06% of the Shares in issue as at 31 December 2016 and the date of this annual report respectively, were vested to the named grantees.

The table below sets out details of the outstanding options granted to the grantees under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2016:

						Number of Shares				
Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Granted on the date of grant	Outstanding as at 1/1/2016	Exercised during the year ended 31/12/2016	Cancelled/ Lapsed during the year ended 31/12/2016	Outstanding as at 31/12/2016
Senior management										
Mr. YANG Guangwen	10/6/2015	25% of options on 10 June 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$3.934	HK$3.62	3,000,000[1]	3,000,000	–	–	3,000,000
Other Grantee										
1 other grantee	5/7/2016	25% of options on 31 December 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$1.634	HK$1.57	1,000,000[2]	–	–	–	1,000,000

Notes:

(1) On 10 June 2015, 3,000,000 share options were granted to a senior management with exercise price of HK$3.934 per Share, which represents the highest of: (i) the closing price of HK$3.69 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 10 June 2015; (ii) the average of the closing price of HK$3.934 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

(2) On 5 July 2016, 1,000,000 share options were granted to an eligible participant with exercise price of HK$1.634 per Share, which represents the highest of: (i) the closing price of HK$1.42 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 5 July 2016; (ii) the average of the closing price of HK$1.634 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

Summary of the share option schemes

		Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1.	Purpose	To provide an incentive for participants and to reward their performance with rights which allow them to subscribe for Shares and to own the Company in proportion with their contribution to the Company or any of its subsidiaries.	To provide an incentive or reward for the participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.
2.	Eligible Participants	Full-time employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries who, in the absolute discretion of the Board, have contributed or will contribute to the Group.	Full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries, and suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, has contributed or will contribute to the Group and whom the Board may in its absolute discretion select and think fit.
3.	Maximum number of Shares	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 105,570,000, i.e. 8.80% and 6.81% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	The total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.68% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.
		No further option could be granted under the Pre-IPO Share Option Scheme.	The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time.
4.	Maximum entitlement of each participant	The respective entitlement of each participant as granted on 17 November 2014	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer.

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

PRE-IPO RSU PLAN

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

Pursuant to the Pre-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 13,850,000 Shares, equivalent to approximately 0.88% of the Shares of the Company in issue as at 31 December 2016, to the senior management of the Group and other grantees. 13,850,000 RSUs were vested in full to the named grantees set out in the table below on 1 April 2015. As at 31 December 2016, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan.

POST-IPO RSU PLAN

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

Pursuant to the Post-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 45,000,000 Shares, which represented approximately 2.87% of the Shares in issue as at 31 December 2016. No RSU was granted under the Post-IPO RSU Plan from the date of its adoption to the date of this annual report.

Summary of the restricted share unit plans

		Pre-IPO RSU Plan	Post-IPO RSU Plan
1.	Purpose	To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development of the Group.	Same as the Pre-IPO RSU Plan
2.	Eligible Participants	(i) Full-time employees or officers (including executive, non-executive and independent non-executive Directors) of the Company; (ii) Full-time employees of any subsidiaries and the PRC Operating Entities; (iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and (iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.	Same as the Pre-IPO RSU Plan
3.	Maximum number of Shares	The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e. 1.15% and 0.89% of the issued Shares as at 17 November 2014 and the date of this annual report respectively. No further award of RSUs could be granted under the Pre-IPO RSU Plan.	The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e. 3.75% and 2.90% of the issued Shares as at 17 November 2014 and the date of this annual report respectively. If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as of the date of approval of the refreshed limit.
4.	Term of the RSU Plan	Valid and effective for a period of 5 years from 17 November 2014.	Same as the Pre-IPO RSU Plan

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

MANAGEMENT CONTRACTS

Other than the service contracts and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2016.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2016 or at any time during the year ended 31 December 2016.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

According to the Administration of Foreign Invested Telecommunications Enterprises, which was issued on 11 December 2011 and subsequently amended on 10 September 2008 and 6 February 2016, foreign ownership of companies that provide value-added telecommunication services, including the operation of online games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into a series of agreements (i) among Xiamen Feiyou, Xiamen Guanghuan and the Relevant Shareholders, and (ii) among Xiamen Feiyou, Xiamen Youli, Kailuo Tianxia and Xiamen Guanghuan to enable the Company to exercise and maintain control over operations of the PRC Contractual Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they were wholly-owned subsidiaries of the Company.

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

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2016, expenditure amounting to RMB3,717,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2016, the Company had generated revenue from the overseas markets which amounted to RMB3,086,000.

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

The Contractual Arrangements which were in place during the year ended 31 December 2016 are as follows:

1. Exclusive Business Cooperation Agreement dated 4 September 2014 pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Guanghuan, and Xiamen Guanghuan agreed to pay service fees to Xiamen Feiyou;

2. Exclusive Business Cooperation Agreements dated 31 October 2014 pursuant to which Xiamen Feiyou agreed to provide exclusive technical and management consulting services to Xiamen Youli and Kailuo Tianxia, and Xiamen Youli and Kailuo Tianxia agreed to pay service fees to Xiamen Feiyou;

3. Powers of Attorney dated 4 September 2014 pursuant to which the Relevant Shareholders irrevocably delegated the voting rights and other shareholder rights of Xiamen Guanghuan to Xiamen Feiyou or designee(s) of Xiamen Feiyou;

4. Powers of Attorney dated 31 October 2014 pursuant to which Xiamen Guanghuan irrevocably delegated the voting rights and other shareholder rights of Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou or designee(s) of Xiamen Feiyou;

5. Equity Interest Pledge Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders pledged all their equity interests in Xiamen Guanghuan to Xiamen Feiyou to provide security on the performance of contractual obligations of the Relevant Shareholders under the Contractual Arrangements;

6. Equity Interest Pledge Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan pledged all its equity interests in Xiamen Youli and Kailuo Tianxia to Xiamen Feiyou to provide security on the performance of contractual obligations of Xiamen Guanghuan under the Contractual Arrangements;

7. Exclusive Option Agreement dated 4 September 2014 pursuant to which the Relevant Shareholders and Xiamen Guanghuan agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Guanghuan from the Relevant Shareholders by itself or through its appointee(s); and

8. Exclusive Option Agreements dated 31 October 2014 pursuant to which Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia agreed to irrevocably, unconditionally and exclusively grant an exclusive option to Xiamen Feiyou which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the equity interests of Xiamen Youli and Kailuo Tianxia from Xiamen Guanghuan by itself or through its appointee(s).

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2016.

Waiver from the Stock Exchange and Annual Review

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

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

Licence Agreement

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., as the licensee (the "Licensee"), entered into a licence agreement (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 cartoons, films, TV dramas, online dramas and other visual products (the "Films") for a period commencing from 29 March 2016 to 31 December 2018 (both dates inclusive). 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 equal to 8% of the sales revenue generated by the Films. As the Licensee is a direct wholly-owned subsidiary of Xiamen Zhangxin Internet, of which each of Mr. Yao Jianjun and Mr. Chen Jianyu, executive Directors, directly held 50% equity interests as at the date of the licensing agreement (29 March 2016) and held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2016, the Licensee is an associate of Mr. Yao, Mr. Chen and Mr. Bi as at 31 December 2016 and hence, a connected person of the Company. Accordingly, the transactions contemplated under the Licence Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Please refer to the Company's announcements dated 29 March 2016 for details.

The proposed annual caps for the continuing connected transactions under the Licence Agreement are HK$2 million, HK$5 million and HK$10 million for each of the three financial years ended/ending 31 December 2016, 31 December 2017 and 31 December 2018 respectively.

During the year ended 31 December 2016, there was no transaction incurred under the Licence Agreement.

Annual Review

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

The independent non-executive Directors have also reviewed and confirmed that:

1. the transactions carried out during the year ended 31 December 2016 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;

2. no dividends or other distributions have been made by the PRC Contractual Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and

3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2016.

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

A copy of the auditors' letter on the continuing connected transactions of the Group for the year ended 31 December 2016 has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2016 are set out in Note 33 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Report of Directors – Non-exempt Continuing Connected Transactions") of the Company under the Listing Rules, the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry with all the Directors, the Company confirmed that all members of the Board complied with the Model Code during 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 provision of the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2016.

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 brokerage and 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:

Month of repurchase	Number of shares repurchased	Price paid per Share Highest HK$	Lowest HK$	Aggregate price paid (before brokerage and expense) 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 23,148,000 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best knowledge of the Directors, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2016 and up to the date of this annual report.

EVENT AFTER THE REPORTING PERIOD

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.

BOARD COMMITTEES

The Company established each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 72 to 75 of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2016, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

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.

AUDITORS

The Company has appointed Ernst & Young as the auditors of the Company for the year ended 31 December 2016. The consolidated financial statements of the Group for the year ended 31 December 2016 have been audited by Ernst & Young.

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

On behalf of the Board
YAO Jianjun
Chairman

Hong Kong, 24 March 2017

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2016, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

The Company will review and commit to making necessary arrangement to comply with all the code provisions under the CG Code and the rising expectations of the Shareholders and investors.

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2016. Details of the shareholding interests held by the Directors as at 31 December 2016 are set out on pages 50 to 52 of this annual report.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2016.

THE BOARD

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

Executive Directors	Mr. YAO Jianjun *(Chairman and Chief Executive Director)* Mr. CHEN Jianyu Mr. BI Lin Mr. SUN Zhiyan Mr. LIN Jiabin Mr. LIN Zhibin
Independent non-executive Directors	Ms. LIU Qianli Mr. LAI Xiaoling Mr. MA Suen Yee Andrew

Biographical details of the Directors are set out on pages 39 to 45 of this annual report.

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

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

During the year ended 31 December 2016, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with guidelines set out in the Listing Rules.

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

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

FUNCTIONS AND RESPONSIBILITIES OF THE BOARD

Management function

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

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2016.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

BOARD MEETINGS

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

The Board has held 9 Board meetings during the year ended 31 December 2016 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2016 are set out below:

Name of the Directors	Attendance/ Number of Board Meeting
Executive Directors:	
Mr. YAO Jianjun	9/9
Mr. CHEN Jianyu	9/9
Mr. BI Lin	9/9
Mr. SUN Zhiyan	9/9
Mr. LIN Jiabin	9/9
Mr. LIN Zhibin	9/9
Independent non-executive Directors:	
Ms. LIU Qianli	9/9
Mr. LAI Xiaoling	9/9
Mr. MA Suen Yee Andrew	9/9

Pursuant to code provision A.2.7 of the CG Code, the Chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the Executive Directors. The Chairman met with the independent non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2016 for discussing the investment and strategic planning of the Group.

Practices and Conduct of Meetings

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

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

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

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

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2016.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration of each of the Directors for the year ended 31 December 2016 are set out in Note 8 to the financial statements of this annual report.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

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

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

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO in relation to inside information. A summary of training received by the Directors for the year ended 31 December 2016 according to the records provided by the Directors is as follows:

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

BOARD COMMITTEES

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

Nomination Committee

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2016 and the date of this annual report, the Nomination Committee comprises three members, the majority of whom were independent non-executive Directors. Mr. YAO Jianjun, Chairman of the Board and executive Director served as the chairman of the Nomination Committee, and Ms. LIU Qianli, an Independent Non-executive Director and Mr. MA Suen Yee Andrew, an independent non-executive Director served as the committee members.

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

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

During the year ended 31 December 2016, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the Board Diversity Policy and its implementation, and assessed the independence of the independent non-executive Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2016 are set out below:

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

Remuneration Committee

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2016 and the date of this annual report, the Remuneration Committee comprises three members, the majority of whom are independent non-executive Directors. Ms. LIU Qianli, an independent non-executive Director, served as chairwoman of the Remuneration Committee, and Mr. BI Lin, an executive Director and Mr. LAI Xiaoling, an independent non-executive Director, served as the committee members.

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

The Remuneration Committee held two meetings during the year ended 31 December 2016 to review, inter alias, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; (iii) the granting of share options pursuant to the Post-IPO Share Option Scheme of the Company; and (iv) other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2016 are set out below:

Name of members of the Remuneration Committee	Attendance/ Number of Remuneration Committee meeting
Chairwoman:	
Ms. LIU Qianli	1/1
Members:	
Mr. BI Lin	1/1
Mr. LAI Xiaoling	1/1

Details of the remuneration of each of the Directors for the year ended 31 December 2016 are set out in Note 8 to the financial statements of this annual report.

Audit Committee

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

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

The Audit Committee held three meetings during the year ended 31 December 2016 to review the annual results of the Group for the year ended 31 December 2016 and the interim results of the Group for the six months ended 30 June 2016 as well as the reports prepared by the external auditors relating to 2016 annual audit and interim review plans and accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2016 are set out below:

Name of members of the Audit Committee	Attendance/ Number of Audit Committee meeting
Chairwoman:	
Ms. LIU Qianli	2/3
Members:	
Mr. LAI Xiaoling	2/3
Mr. MA Suen Yee Andrew	3/3

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

The Group's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee on 24 March 2017, and it considers that the said annual results are in compliance with the relevant accounting standards, rules and regulations, and appropriate disclosures have been duly made.

SHAREHOLDING INTEREST OF SENIOR MANAGEMENT MEMBERS

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 50 to 51 of this annual report.

REMUNERATION OF EXTERNAL AUDITORS

The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditors' report on page 82.

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

During the year ended 31 December 2016, the total fee paid/payable to Ernst & Young in respect of audit service is set out below:

Items of auditors' service	Amount (RMB'000)
Audit service	2,650
Total	2,650

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016 which give a true and fair view of the financial position of the Group as well as the operating results and cash flows during that year.

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

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

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

During the year ended 31 December 2016, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board has overall responsibility for maintaining a sound and effective risk management and internal control systems of the Group, which includes a defined management structure with limits of authority, and is designed to ensure proper application of accounting standards, provision of reliable financial information for internal use, publication and compliance with the relevant laws and regulations. The Board reviews the risk management and internal control systems on an annual basis through the Audit Committee.

To assist the Audit Committee in its oversight and monitoring activities, the Group maintains an independent internal audit function. Internal audit provides objective assurance to the Audit Committee that the systems of risk management and internal control is effective and operating as intended. The mission of internal audit is to provide the Board and the management with independent and objective assessment of the Group's internal control systems, guidance for improving risk management, proactive support to improve the Group's control posture and independent investigations regarding certain allegations of violations of the Code of Conduct which applies to all employees and other policies of the Company.

In respect of the year ended 31 December 2016, the Board considered the risk management and internal control system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget were adequate.

Process used to idenity, evaluate and manage significant risks

The Group improves its management capability and adaptability, and further ensures the realisation of the business objectives and a sustainable growth through active and systematic identification, assessment and response to risk issues occurred in the operation process. On preparation of the annual work plans and special plans, those risk factors that may affect the achievement of the goals were comprehensively identified and assessed by each department of the Group, and corresponding risk response measures and annual risk management plan were formulated. The management identified material risks on the corporation level based thereon as the key area of the annual risk management, and reviewed and assessed the implementation of the risk management plan in the middle and at the end of the year.

Main features of Risk Management and Internal Control System

The Group adopts a holistic risk management and internal controls framework to proactively manage risks. This framework is put into effect by the Board, with the Audit Committee to support the Board in monitoring risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems. The roles of the Board, the Audit Committee, the management and the Internal Audit Function in the risk management and internal control systems of the Company are as follows:

The Board

- maintains a sound and effective internal control system
- monitors the performance of the internal control system
- sets high ethical and moral standards and monitoring management compliance with these standards

The Audit Committee

- provides directives for the design and implementation of a sound and effective internal control system
- oversees the risk management and internal control systems
- reviews the Group's statement of internal control systems prior to its endorsement by the Board
- ensures the independence and transparency of the internal audit function

The management

- cooperates with and supporting the work of the internal audit
- designs, implementing and maintaining an effective internal control system
- supervises staff to ensure that they carry out their duties in accordance with the requirements of internal control practices.
- coordinates the risk identification and assessment process, highlights identified risks to the Audit Committee, along with the status of actions taken to manage these risks

The Internal Audit Function

- formulates action plans to monitor the effectiveness of the internal control system
- works with various departments and monitoring their compliance with internal control practices
- conducts robust reviews and stringent testing of the internal control system and making recommendations for improvement
- provides independent and objective assurance of the effectiveness of the internal control practices

The system is developed to provide reasonable, but not absolute, assurance against material misstatement or losses and to manage, but not fully eliminate, risk of operational system failure and the Group's failure in meeting the standards.

Supervision and self-assessment of the Internal Control Systems

The Board focuses on the key elements of the internal control and continues to review the effectiveness of the Group's internal control system through the Audit Committee and its subordinate Audit Department. The Company established the internal audit function, which independently reviews, supervises and evaluates internal control activities regularly and whenever necessary based on possible risks and degrees of importance involved in various businesses and procedures and directly reports to the Audit Committee. The Audit Committee continuously supervises and reviews the soundness and effectiveness of the Group's financial reporting and internal control system on an ongoing basis. The Audit Committee will then report to the Board after due review of the effectiveness of the Group's system of internal controls. The Board considers the works and findings of the Audit Committee in forming its own view on the effectiveness of the system.

For handling and dissemination of Inside Information

With respect to the procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the SFO safe harbours;
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008 respectively;
- has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information; and
- has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, Investor Relations Director are authorised to communicate with parties outside the Group.

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

SHAREHOLDERS' RIGHTS

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

Putting forward proposals at General Meetings

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

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

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

Convening an Extraordinary General Meeting by Shareholders

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

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

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

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

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

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

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

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

GENERAL MEETINGS

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

During the year ended 31 December 2016, one annual general meeting was held. The attendance record of each Director at the annual general meeting is set out below:

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

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. In his absence, he should duly appoint delegate to attend. Mr. YAO Jianjun, the chairman of the board, was unable to attend the annual general meeting of the Company held on 20 May 2016, but appointed Mr. BI Lin, the vice president as delegate.

Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the view of the Shareholders. Ms. LIU Qianli and Mr. 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 forthcoming annual general meeting of the Company will be held on 26 May 2017. The notice of the annual general meeting will be sent to the Shareholders at least 20 clear business days before the annual general meeting.

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 HKEx.

COMPANY SECRETARY

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

Mr. CHEUNG Man Yu has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2016.

INDEPENDENT AUDITORS' REPORT

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

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

安永會計師事務所
香港中環
添美道1號
中信大廈
22樓

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

To the shareholders of Feiyu Technology International Company Ltd.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 151, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certificated Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill carrying amounts	
Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the carrying value of goodwill as of 31 December 2016 is material to the financial statements. In addition, management's assessment process is complex and highly judgemental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied. The impairment test is based on the recoverable values of the respective cash-generating units ("CGU") to which the goodwill is assigned to. The Group's disclosures about goodwill are included to Note 15 in the financial statements.	Our audit procedures included, among others, evaluating the forecast by comparing the forecasts with the historic performance of the respective CGUs and other supporting information. We have also involved our internal valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular, discount rates and long term growth rates. We also assessed the adequacy of the Group's disclosures of the assumptions to which the outcome of the impairment test is most sensitive.
Fair value measurement of available-for-sale investments	
The Group's certain available-for-sale investments are carried at fair value in the statement of financial position. These investments have no published prices in active markets. The fair value measurement is a subjective area and the management's assessment process is complex and highly judgemental. The Group's disclosures of the key terms and fair value hierarchy of the investments are included in Note 21 and Note 35 to the financial statements.	We involved our internal valuation expert to assist us in evaluating the assumptions and methodologies used by the Group in the determination of the fair value of the investments, in particular, discount rates and future cash flows generated by these available-for-sale investments. We also assessed the adequacy of the Group's disclosures of the key terms and the fair value hierarchy of the investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lawrence K.W. Lau.

Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	188,133	322,147
Cost of sales		(57,184)	(54,482)
Gross profit		130,949	267,665
Other income and gains	5	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	7	(970)	(523)
Other expenses		(129,626)	(214)
Share of losses of associates		(771)	(1,299)
(LOSS)/PROFIT BEFORE TAX	6	(153,269)	99,730
Income tax expense	10	(7,646)	(4,742)
(LOSS)/PROFIT FOR THE YEAR		(160,915)	94,988
Attributable to:			
Owners of the parent		(151,002)	65,882
Non-controlling interests		(9,913)	29,106
		(160,915)	94,988
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic		RMB(0.10)	RMB0.04
– Diluted		Not applicable	RMB0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
(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	5	**(1,105)**	(7,748)
Exchange differences related to foreign operations		**20,718**	16,540
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**24,219**	(2,114)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**24,219**	(2,114)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(136,696)**	92,874
Attributable to:			
Owners of the parent		**(126,670)**	63,768
Non-controlling interests		**(10,026)**	29,106
		(136,696)	92,874

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	13,376	18,480
Prepaid land lease payments	14	106,307	–
Goodwill	15	314,253	409,557
Other intangible assets	16	5,631	36,517
Investments in associates	17	17,668	16,701
Prepayments, deposits and other receivables	20	22,412	2,210
Available-for-sale investments	21	399,116	274,758
Deferred tax assets	18	2,387	3,244
Total non-current assets		881,150	761,467
CURRENT ASSETS			
Accounts receivable	19	895	3,280
Receivables due from third-party game distribution platforms and payment channels	19	53,373	50,197
Prepayments, deposits and other receivables	20	19,886	6,771
Restricted cash		680	–
Short term investment	21	–	20,108
Available-for-sale investment	21	7,139	20,070
Cash and cash equivalents	22	237,028	463,897
Total current assets		319,001	564,323
CURRENT LIABILITIES			
Other payables and accruals	23	90,353	187,875
Interest-bearing bank borrowing	24	55,655	51,129
Tax payable		6,228	3,100
Deferred revenue	25	11,594	7,716
Total current liabilities		163,830	249,820
NET CURRENT ASSETS		155,171	314,503
TOTAL ASSETS LESS CURRENT LIABILITIES		1,036,321	1,075,970

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,036,321**	1,075,970
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**450**	4,208
Deferred revenue	25	**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	26	**1**	1
Share premium	26	**504,719**	490,051
Treasury shares	26	**(8,394)**	(5,090)
Reserves	28	**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

Yao Jianjun
Director

Chen Jianyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

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

Continued/…

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	1	490,051	11,779	76,405	353,337	(18,419)	14,843	150,006	(5,090)	1,072,913	(2,470)	1,070,443
Loss for the year	-	-	-	-	-	-	-	(151,002)	-	(151,002)	(9,913)	(160,915)
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	-	3,501	-	-	-	3,501	-	3,501
Exchange differences related to foreign operations	-	-	-	-	-	-	20,831	-	-	20,831	(113)	20,718
Total comprehensive loss for the year	-	-	-	-	-	3,501	20,831	(151,002)	-	(126,670)	(10,026)	(136,696)
Distribution to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	6,132	6,132
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	4,853	4,853
Acquisition of non-controlling interests in Xiamen Yidou and Xiamen Zhangxin	-	53,590	-	-	-	-	-	-	-	53,590	-	53,590
Repurchase of shares	-	-	-	-	-	-	-	-	(30,501)	(30,501)	-	(30,501)
Cancellation of shares	-	(27,197)	-	-	-	-	-	-	27,197	-	-	-
Equity-settled share-based payment expenses	-	-	-	89,463	-	-	-	-	-	89,463	-	89,463
Exercise of share options	-	28,012	-	(19,785)	-	-	-	-	-	8,227	-	8,227
Transfer from retained profits	-	-	100	-	-	-	-	(100)	-	-	-	-
2015 final dividend	-	(39,737)	-	-	-	-	-	-	-	(39,737)	-	(39,737)
At 31 December 2016	1	504,719	11,879*	146,083*	353,337*	(14,918)*	35,674*	(1,096)*	(8,394)	1,027,285	(1,511)	1,025,774

* These reserve accounts comprise the consolidated reserves of RMB530,959,000 (2015: RMB587,951,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(153,269)	99,730
Adjustments for:			
Finance costs	7	970	523
Interest income	5	(14,424)	(16,698)
Other compensation expenses	6	6,132	–
Depreciation of property, plant and equipment	13	7,828	5,853
Amortisation of intangible assets	16	21,303	21,300
Recognition of prepaid land lease payments	14	1,148	–
Gain on disposal of items of property, plant and equipment		(32)	(72)
Equity-settled share-based payment expenses		89,463	84,208
Fair value gains, net:			
Available-for-sale investments (transfer from equity on disposal)	5	(1,105)	(7,748)
Loss on liquidation of a subsidiary		–	21
Gain on fair value change of contingent consideration	5	(75,584)	(7,415)
Share of losses of associates	17	771	1,299
Impairment of an investment in an associate	17	3,512	–
Impairment of goodwill	15	107,754	–
Impairment of other intangible assets	16	9,583	–
		4,050	181,001
Decrease/(increase) in accounts receivable		2,435	(218)
(Increase)/decrease in receivables due from third-party game distribution platforms and payment channels		(3,176)	68,173
Increase in prepayments, deposits and other receivables		(19,381)	(242)
Increase/(decrease) in other payables and accruals		29,306	(2,923)
Increase in restricted cash		(680)	–
Increase/(decrease) in deferred revenue		12,656	(8,635)
Cash generated from operations		25,210	237,156
Income tax paid		(7,419)	(8,764)
Net cash flows from operating activities		17,791	228,392

Continued/…

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows from operating activities		**17,791**	228,392
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**14,991**	16,062
Purchases of items of property, plant and equipment		**(2,692)**	(10,101)
Purchase of prepaid land lease		**(110,210)**	–
Additions to other intangible assets		**–**	(2,019)
Proceeds from disposal of items of property, plant and equipment		**359**	338
Purchase of available-for-sale investments		**(539,205)**	(680,648)
Proceeds from disposal of available-for-sale investments		**472,581**	400,247
Deposit transferred from an account in a domestic securities company		**–**	43,729
Deposit for land lease payments		**(10,700)**	–
Investments in associates		**(5,000)**	(15,000)
Proceeds from disposal of an associate		**355**	–
Acquisition of subsidiaries		**(6,716)**	(1,020)
Net cash flows used in investing activities		**(186,237)**	(248,412)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital injection of subsidiaries by non-controlling shareholders		**–**	600
Proceeds from exercise of share options		**8,153**	–
Payment of listing expenses		**–**	(1,957)
Addition of bank loans		**634,544**	347,611
Repayment of bank loans		**(633,551)**	(297,597)
Repurchase of shares		**(31,288)**	(19,002)
Interest paid		**–**	(308)
Dividends paid		**(39,737)**	(91,869)
Net cash flows used in financing activities		**(61,879)**	(62,522)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(230,325)**	(82,542)
Cash and cash equivalents at beginning of year		**463,897**	545,511
Effect of foreign exchange rate changes, net		**3,456**	928
CASH AND CASH EQUIVALENTS AT END OF YEAR		**237,028**	463,897
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	22	**237,028**	463,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

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 Feiyou Information Technology Co., Ltd.	PRC/ Mainland China	US$5,000,000	24 June 2014	–	100	Investment holding
Xiamen Zhangxin	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. Further details of the acquisition are included in note 29 to the financial statements.

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	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements *2012-2014 Cycle*	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	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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

Game intellectual properties and licences – Games acquired are amortised over their estimated beneficial years on the straight-line basis. The estimated useful lives range from 2 years to 4 years.

Research and development costs

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

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

Leases

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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

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

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

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

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

(a) *Game operation*

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(b) Online game distribution

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

(c) Licensing income

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

(d) Advertising revenue

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

(e) Technical service income

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

(f) Interest income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

Equity-settled share-based payments

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Other share-based payments

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

Other employee benefits

Pension scheme

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

Pension obligations

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

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

Housing benefits

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

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB314,253,000 (2015: RMB409,557,000). Further details are given in note 15.

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

Deferred tax assets
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to tax losses were recognised at 31 December 2016 (2015: RMB299,000). The amount of unrecognised tax losses at 31 December 2016 was RMB120,516,000 (2015: RMB70,937,000). Further details are contained in note 18 to the financial statements.

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

Estimation uncertainty (Continued)

Online game revenue recognition

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

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

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

4. OPERATING SEGMENT INFORMATION

Information about geographical areas

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

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

Revenue	**2016 RMB'000**	2015 RMB'000
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 (note 33)	**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

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Channel costs		**2,071**	4,963
Rental fee (including servers)		**12,065**	8,733
Depreciation	13	**7,828**	5,853
Amortisation	16	**21,303**	21,300
Amortisation of land lease payments	14	**1,148**	–
Advertising expenses		**10,667**	8,883
Auditor's remuneration		**2,650**	2,600
Impairment of goodwill*	15	**107,754**	–
Impairment of other intangible asset*	16	**9,583**	–
Impairment of an investment in an associate*	17	**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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on a bank loan	**970**	523

8. DIRECTORS' REMUNERATION

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

	Group	
	2016	2015
	RMB'000	RMB'000
Fees	**3,354**	3,142
Other emoluments:		
Salaries, allowances and benefits in kind	**2,696**	2,678
Performance related bonuses	**397**	549
Pension scheme contributions	**259**	248
	6,706	6,617

(a) Independent non-executive directors

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

	2016	2015
	RMB'000	RMB'000
Mr. Lai Xiaoling	**268**	251
Ms. Liu Qianli	**268**	251
Mr. Ma Suen Yee Andrew	**268**	252
	804	754

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	425	420	35	42	922
Mr. Bi Lin	425	708	59	51	1,243
Mr. Sun Zhiyan	425	363	179	41	1,008
Mr. Chen Jianyu	425	363	54	41	883
Mr. Lin Zhibin	425	421	35	42	923
Mr. Lin Jiabin	425	421	35	42	923
	2,550	2,696	397	259	5,902

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	4,339	3,061
Performance related bonuses	694	4,491
Equity-settled share-based payment expenses*	73,878	49,256
Pension scheme contributions	210	204
	79,121	57,012

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

	Number of employees	
	2016	2015
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$5,000,000	2	1
HK$5,000,001 to HK$8,000,000	–	1
HK$8,000,001 to HK$12,000,000	–	1
HK$12,000,001 to HK$17,000,000	–	1
HK$17,000,001 to HK$30,000,000	3	1
	5	5

* The amount included certain ordinary shares transferred to several employees in subsidiaries of the Company by shareholders as rewards for their services to the Group. The reward cost was measured at the fair value of the shares and expensed to the consolidated statement of profit or loss as employee's remuneration as disclosed in note 27.

During the year and in prior years, share-based payments were made to five non-director highest paid employees in respect of their services to the Group (2015: five), further details of which are included in the disclosures in note 27 to the financial statements. The fair value of share-based payments, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

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

Under the relevant income tax law, the PRC subsidiaries are subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen 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 RMB'000	2015 RMB'000
Current tax	**10,547**	9,145
Deferred tax (note 18)	**(2,901)**	(4,403)
Total tax charge for the year	**7,646**	4,742

10. INCOME TAX EXPENSE (Continued)

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

	2016 RMB'000	2015 RMB'000
(Loss)/profit before tax	(153,269)	99,730
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
Tax charge	7,646	4,742

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
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	39,737	–
	39,737	63,591

12. (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.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016					
At 31 December 2015 and at 1 January 2016:					
Cost	10,304	9,360	13,161	–	32,825
Accumulated depreciation	(5,761)	(5,131)	(3,453)	–	(14,345)
Net carrying amount	4,543	4,229	9,708	–	18,480
At 1 January 2016, net of accumulated depreciation	4,543	4,229	9,708	–	18,480
Additions	1,274	403	297	1,063	3,037
Acquisition of a subsidiary (note 29)	14	–	–	–	14
Disposals	(124)	(203)	–	–	(327)
Depreciation provided during the year	(2,383)	(1,959)	(3,486)	–	(7,828)
At 31 December 2016, net of accumulated depreciation	3,324	2,470	6,519	1,063	13,376
At 31 December 2016:					
Cost	11,381	9,525	13,458	1,063	35,427
Accumulated depreciation	(8,057)	(7,055)	(6,939)	–	(22,051)
Net carrying amount	3,324	2,470	6,519	1,063	13,376

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000
Carrying amount at 1 January	–
Addition	110,210
Recognised during the year	(1,148)
Carrying amount at 31 December	109,062
Current portion included in prepayments, deposits and other receivables	(2,755)
Non-current portion	106,307

15. GOODWILL

	RMB'000
At 1 January 2015	
Cost and net carrying amount	408,619
Cost at 1 January 2015	408,619
Acquisition of a subsidiary	938
At 31 December 2015	409,557
At 31 December 2015	
Cost and net carrying amount	409,557
Cost at 1 January 2016	409,557
Acquisition of a subsidiary (note 29)	12,450
Impairment during the year	(107,754)
At 31 December 2016	314,253
At 31 December 2016	
Cost	422,007
Accumulated impairment	(107,754)
Net carrying amount	314,253

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

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

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 a 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 seven-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2016 RMB'000	2015 RMB'000
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
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 games.

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

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Game intellectual properties and licences RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	2,850	33,667	36,517
Additions	–	–	–
Amortisation provided during the year	(818)	(20,485)	(21,303)
Impairment during the year	–	(9,583)	(9,583)
At 31 December 2016	2,032	3,599	5,631
At 31 December 2016:			
Cost	6,041	74,636	80,677
Accumulated amortisation and impairment	(4,009)	(71,037)	(75,046)
Net carrying amount	2,032	3,599	5,631
31 December 2015			
At 1 January 2015:			
Cost	4,022	74,636	78,658
Accumulated amortisation	(2,375)	(20,485)	(22,860)
Net carrying amount	1,647	54,151	55,798
Cost at 1 January 2015, net of accumulated amortisation	1,647	54,151	55,798
Additions	2,019	–	2,019
Amortisation provided during the year	(816)	(20,484)	(21,300)
At 31 December 2015	2,850	33,667	36,517
At 31 December 2015 and at 1 January 2016:			
Cost	6,041	74,636	80,677
Accumulated amortisation	(3,191)	(40,969)	(44,160)
Net carrying amount	2,850	33,667	36,517

17. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Shares of net assets	**2,163**	1,751
Goodwill on acquisition	**15,505**	14,950
	17,668	16,701

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

	2016 RMB'000	2015 RMB'000
Share of the associates' loss for the year	**(771)**	(1,299)
Impairment of an investment in an associate	**(3,512)**	–
Aggregate carrying amount of the Group's investments in the associates	**17,668**	16,701

18. DEFERRED TAX

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

Deferred tax assets

	Advertisement expense RMB'000	**Deferred revenue** RMB'000	**Accruals** RMB'000	**Losses available for offsetting against future taxable income** RMB'000	**Depreciation allowance in excess of related depreciation** RMB'000	**Total** RMB'000
At 1 January 2015	–	944	458	–	–	1,402
Deferred tax credited to the statement of profit or loss during the year (note 10)	50	682	803	299	8	1,842
At 31 December 2015	50	1,626	1,261	299	8	3,244
At 1 January 2016	50	1,626	1,261	299	8	3,244
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(50)	64	(564)	(299)	(8)	(857)
At 31 December 2016	–	1,690	697	–	–	2,387

18. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of tax losses of RMB120,516,000 as at 31 December 2016 (2015: RMB70,937,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

	Value appreciation of intangible assets during acquisition of Kailuo Tianxia RMB'000
At 1 January 2015	6,769
Deferred tax credited to the statement of profit or loss during the year (note 10)	(2,561)
At 31 December 2015	4,208
At 1 January 2016	4,208
Deferred tax credited to the statement of profit or loss during the year (note 10)	(3,758)
At 31 December 2016	450

No deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB412,914,000 as at 31 December 2016 (2015: RMB351,388,000).

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

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

	2016 RMB'000	2015 RMB'000
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 RMB'000	2015 RMB'000
Within 3 months	895	3,280

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

	2016 RMB'000	2015 RMB'000
Within 3 months	53,373	50,197

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

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

Accounts receivable from advertising customers

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	895	3,280

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

	2016 RMB'000	2015 RMB'000
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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2016 RMB'000	2015 RMB'000
Non-current			
Prepayments	(1)	12,477	–
Land lease payments related deposits	(2)	8,025	–
Other receivables		1,910	2,210
		22,412	2,210
Current			
Prepayments		6,513	2,962
Deposits		4,566	1,738
Other receivables		8,807	2,071
		19,886	6,771

(1) In 2016, the Group prepaid upfront licensing fees and revenue sharing to game development companies for licensing games.

(2) In 2016, the Group made a land lease related deposit of RMB10,700,000 to the government, among which RMB2,675,000 was included in current portion, the amount will be returned to the Group in the future after the Group meets certain criteria.

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

	2016 RMB'000	2015 RMB'000
Structured financial product	–	20,108
Total short term investment	–	20,108

		2016 RMB'000	2015 RMB'000
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 Internatonal 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.

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

(4) On 4 June 2015, the Group invested in a perpetual convertible bond issued by HSBC Holdings PLC with a nominal amount of US$2,000,000 and a coupon interest rate of 5.625% per annum, at a consideration of US$2,035,000 (equivalent to approximately RMB12.4 million). 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). 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 a short term advance facility granted to the Group (note 24).

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

(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.

22. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**230,167**	332,523
Time deposits	**6,861**	131,374
Cash and cash equivalents	**237,028**	463,897
Denominated in HK$	**28,243**	20,045
Denominated in RMB	**157,423**	432,633
Denominated in US$	**51,362**	11,219
Cash and cash equivalents	**237,028**	463,897

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

23. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Salaries and welfare payables	40,648	34,029
Other payables and accruals	34,525	9,917
Other tax payables	3,309	2,878
Advance from customers	366	4,422
Payables for contingent consideration (note 33)	11,505	136,629
	90,353	187,875

24. INTEREST-BEARING BANK BORROWING

	2016			2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Short term loan – secured	2.082	Monthly renewable	55,655	1.651	Monthly renewable	51,129

	2016 RMB'000	2015 RMB'000
Analysed into:		
Short term loan facility:		
Within one year or on demand	55,655	51,129

Notes:

(a) The Group's short term loan facility amounted to US$40,000,000 (2015: US$40,000,000), of which US$8,023,000 (equivalent to approximately RMB55.7 million) (2015: US$7,874,000) had been drawn as at the end of the reporting period, and is secured by the Group's investment in the life insurance policies (note 21). The period of the loan is one month and renewable on a monthly basis.

(b) The borrowing is in United States dollars.

25. DEFERRED REVENUE

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

26. SHARE CAPITAL

Shares

	2016	2015
Issued and fully paid or credited as fully paid:		
Ordinary shares of US$0.0000001 each	**1,569,261,000**	1,541,032,500
Equivalent to RMB'000	**1**	1

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

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 1 January 2015	1,506,463,500	1	498,034	498,035
RSU exercised	13,850,000	–	21,168	21,168
Share options exercised	717,000	–	1,133	1,133
Issue of shares (note 33)	29,500,000	–	48,006	48,006
Cancellation of repurchased shares	(9,498,000)	–	(14,699)	(14,699)
2015 interim and special dividends	–	–	(63,591)	(63,591)
At 31 December 2015	1,541,032,500	1	490,051	490,052
Share options exercised	17,675,000	–	28,012	28,012
Issue of shares (note 33)	29,500,000	–	53,590	53,590
Cancellation of repurchased shares (a)	(18,946,500)	–	(27,197)	(27,197)
2015 final dividend	–	–	(39,737)	(39,737)
At 31 December 2016	1,569,261,000	1	504,719	504,720

(a) Repurchase of shares

The Company cancelled 18,946,500 repurchased shares with the carrying amount of RMB27,197,000 during the year. The remaining 7,399,500 shares of RMB8,394,000 were recorded as treasury shares in the consolidated statement of financial position.

27. 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).

27. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

(1) Share option schemes (Continued)

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

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
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
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.

27. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

(1) Share option schemes (Continued)

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, as further detailed in note 26 to the financial statements.

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.

At the date of approval of these financial statements, the Company had 58,419,000 share options outstanding under the Schemes, which represented the 3.77% of the Company's shares in issue as at that date.

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.

28. RESERVES

Statutory reserve

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

29. BUSINESS COMBINATIONS

On 31 August 2016, the Group acquired 51% of the equity interest of Veewo Limited, Xiamen Veewo and its subsidiary, which specialised in game development for a cash consideration of RMB17,500,000. The fair value of the identifiable assets and liabilities of Veewo Limited, Xiamen Veewo and its subsidiary as at the date of acquisition were:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	13	14
Cash and bank balances		10,784
Prepayments, deposits and other receivables		268
Accruals and other payables		(1,163)
Non-controlling interests		(4,853)
Total identifiable net assets at fair value		5,050
Goodwill on acquisition	15	12,450
Consideration:		
Satisfied by cash		17,500

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

	RMB'000
Cash consideration	(17,500)
Cash and bank balances acquired	10,784
Net outflow of cash and cash equivalents included in cash flows from investing activities	(6,716)

Since the acquisition, Veewo Limited, Xiamen Veewo and its subsidiary contributed RMB495,000 to the Group's revenue and loss of RMB723,000 to the consolidated loss for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue and loss of the Group for the year would have been RMB188,362,000 and RMB161,380,000.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

In 2015, the Group entered into a share transfer agreement in respect of the acquisition of non-controlling interests in Xiamen Yidou and Xiamen Zhangxin by issuing a maximum of 118,000,000 shares. Further details are given in note 33.

31. OPERATING LEASE ARRANGEMENTS

Operating lease commitments

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

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

As lessee

	2016 RMB'000	2015 RMB'000
Within one year	6,456	6,040
In the second to third years, inclusive	7,558	8,455
In the fourth to fifth years	–	3,540
	14,014	18,035

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Game operation	4,000	–
Construction in progress	2,060	–
	6,060	–

33. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Fine Point Development Limited ("Fine Point")	Controlled by one member of senior management of the Group
Xiamen Plump Fish Cultural Media Co., Ltd. ("Plump Fish")	Controlled by directors of the Company

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2016 Number of shares '000	2015 Number of shares '000
Shares issued (note (i))		
Fine Point	**29,500**	29,500

	2016 RMB'000	2015 RMB'000
Advertising fee (note (ii))		
Plump Fish	**197**	–

Notes:

(i) The Group entered into a share transfer agreement to acquire the non-controlling interests in Xiamen Yidou and Xiamen Zhangxin from Fine Point through allotting and issuing a maximum of 118,000,000 shares to Fine Point. The maximum of 118,000,000 shares will be allotted and issued in four tranches which will be adjusted based on the financial results of Xiamen Yidou and Xiamen Zhangxin in the future years. Such contingent consideration is recorded in other payables and accruals, and measured at fair value subsequently. Based on the share transfer agreement, upon completion of the acquisition of the non-controlling interests, the first tranche of 29,500,000 shares were issued at an issue price of HK$1.97 per share and listed on the Hong Kong Stock Exchange on 26 August 2015. The second tranche of 29,500,000 shares were issued at an issue price of HK$2.18 per share and listed on the Hong Kong Stock Exchange. The third tranche of 11,183,955 shares are expected to be issued to Fine Point in March 2017 based on the financial results of 2016. The fair value of the ordinary shares not yet issued was recorded in other payables as contingent consideration with changes in fair value recorded in the consolidated statement of profit or loss. The fourth tranche of 29,500,000 shares were waived based on the mutual agreement between the Group and Fine Point on 31 December 2016. A fair value change amounted to RMB75,584,000 was recognized for the year ended 31 December 2016.

(ii) Plump Fish provided advertising services to the Group. The prices are mutually agreed after taking into account the prevailing market prices.

33. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties:

	2016 Number of shares '000	2015 Number of shares '000
Due to a shareholder		
Fine Point	**11,184**	88,500

	Amount RMB'000	Amount RMB'000
Fine Point	**11,505**	136,629

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

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**3,401**	3,425
Performance related bonuses	**3,484**	4,404
Equity-settled share-based payment expenses	**5,266**	20,416
Other share-based payment expenses (note 27)	**20,430**	20,349
Pension scheme contributions	**166**	238
	32,747	48,832

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets

As at 31 December 2016

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable	–	895	895
Receivables due from third-party game distribution platforms and payment channels	–	53,373	53,373
Financial assets included in prepayments, deposits and other receivables	–	23,308	23,308
Available-for-sale investments	406,255	–	406,255
Cash and cash equivalents	–	237,028	237,028
Restricted cash	–	680	680
	406,255	315,284	721,539

As at 31 December 2015

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

34. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2016 RMB'000	2015 RMB'000
Financial liabilities included in other payables and accruals	**31,804**	7,532
Interest-bearing bank borrowing (note 24)	**55,655**	51,129
	87,459	58,661

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

As at 31 December 2016

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Available-for-sale investments	**–**	**339,453**	**–**	**339,453**

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2015

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

During the year ended 31 December 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 67% (2015: 51%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

Group

	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	55,655	–	–	–	55,655
Other payables	4,219	–	27,585	–	–	31,804
	4,219	55,655	27,585	–	–	87,459

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

Capital management

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

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

37. EVENT AFTER THE REPORTING PERIOD

On 24 March 2017, the Group and the distributor, 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 operated and launched commercially in the market.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Note	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		379,897	296,034
Available-for-sale investments		268,316	274,758
Total non-current assets		648,213	570,792
CURRENT ASSETS			
Due from subsidiaries		91,087	25,740
Prepayments, deposits and other receivables		900	676
Cash and cash equivalents		61,463	157,489
Total current assets		153,450	183,905
CURRENT LIABILITIES			
Due to subsidiaries		814	16,212
Other payables and accruals		12,940	137,631
Interest-bearing bank borrowing		55,655	51,129
Total current liabilities		69,409	204,972
NET CURRENT ASSETS		84,041	(21,067)
NET ASSETS		732,254	549,725
EQUITY			
Share capital	26	1	1
Share premium	26	504,719	490,051
Treasury shares	26	(8,394)	(5,090)
Reserves (note)		235,928	64,763
Total equity		732,254	549,725

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

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

	Equity-settled share-based payment reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2015	14,168	–	(1,734)	(28,634)	(16,200)
Total comprehensive income for the year	–	(18,488)	17,601	19,613	18,726
Equity-settled share-based payment expenses	84,208	–	–	–	84,208
Exercise of options	(21,971)	–	–	–	(21,971)
At 31 December 2015	76,405	(18,488)	15,867	(9,021)	64,763
Total comprehensive income for the year	–	3,430	26,145	71,912	101,487
Equity-settled share-based payment expenses	89,463	–	–	–	89,463
Exercise of options	(19,785)	–	–	–	(19,785)
At 31 December 2016	146,083	(15,058)	42,012	62,891	235,928

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 24 March 2017.

DEFINITION

"AGM"	The annual meeting of the Company to be held on Friday, 26 May 2017
"Android"	On operating system developed and maintained by Google Inc.
"ARPPU"	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
"Articles of Association" or "Articles"	the articles of association of the Company adopted on 17 November 2014, as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors"	the board of Directors of the Company
"Cayman Companies Law" or "Companies Law"	The Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Cayman Islands"	the Cayman Islands
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC" or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	The Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) effective from March 3, 2014, as amended, supplemented or otherwise modified from time to time
"Company", "our 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
"Contractual Arrangements"	A series of contractual arrangements entered into by Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. Yao Jianjun, Mr. Bi Lin, Yao Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Ryoon Limited
"Director(s)"	director(s) of the Company
"ESG Report"	Environmental, Social and Governance Report
"Executive Director(s)"	the executive Director(s) of the Company

"Feiyu Hong Kong"	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014
"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", "our Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"HK$" or "Hong Kong dollars" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAS(s)"	International Accounting Standards
"IASB"	International Accounting Standard Board
"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the IASB
"Independent Non-executive Director(s)"	the independent non-executive Director(s) of the Company
"iOS"	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
"IPO"	initial public offering of the Shares on the Main Board of the Stock Exchange
"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 Date"	The date which dealings in Shares first commence on the Stock Exchange, i.e. December 5, 2014
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITION

"Maped"	Manufacture d'Articles de Précision Et de Dessin, a world leader in school and office supplies based in France
"MAU"	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
"Memorandum"	The memorandum of association of the Company adopted on 17 November 2014, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
"NICI"	NICI GmbH , a Germany-based globally-active producer of high-quality brand name goods
"Nomination Committees"	The nomination committee of the Company
"Post-IPO RSU Plan"	The post-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Post-IPO Share Option Scheme"	The post-IPO share option scheme adopted by the Shareholders on 17 November 2014
"PRC Contractual Entities"	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and "PRC Contractual Entity" means any one of them
"PRC Operating Entities"	Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them
"Pre-IPO RSU Plan"	The pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Pre-IPO Share Option Scheme"	The pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
"Prospectus"	the prospectus dated 25 November 2014 issued by the Company
"Relevant Shareholder(s)"	Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, SUN Zhiyan, LIN Jiabin, LIN Zhibin, CAI Wensheng and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan
"Remuneration Committee"	The remuneration committee of the Board

"Renminbi" or "RMB"	Renminbi 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
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) in the share capital of our Company with nominal value of US$0.0000001 each
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules
"US$", "USD" or "United States Dollars"	United States dollars, the lawful currency of the United States of America
"Xiamen Feixin"	Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 13 November 2014
"Xiamen Feiyou"	Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014
"Xiamen Guanghuan"	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009.
"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 Yidou"	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012
"Xiamen Youli"	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company

DEFINITION

"Xiamen Zhangxin"	Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 27 October 2014
"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

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