Huan Yue Interactive Holdings Limited
歡悅互娛控股有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code : 00505

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua
Mr. WANG Jianli *(Resigned on 18 October 2016)*
Mr. MA Wanjun *(Resigned on 18 October 2016)*
Mr. REN Hao *(Appointed on 18 October 2016)*
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong *(Elected on 27 May 2016)*
Mr. MAO Xuechang *(Retired on 27 May 2016)*

Audit Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong *(Appointed on 27 May 2016)*
Mr. MAO Xuechang *(Ceased on 27 May 2016)*

Remuneration Committee

Dr. LOU Dong *(Chairman)*
Ms. LU Hong *(Appointed on 27 May 2016)*
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*
Mr. MAO Xuechang *(Ceased on 27 May 2016)*
Mr. WANG Jianli *(Ceased on 18 October 2016)*

Nomination Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong *(Appointed on 27 May 2016)*
Dr. LOU Dong
Mr. REN Hao *(Appointed on 18 October 2016)*
Mr. MAO Xuechang *(Ceased on 27 May 2016)*
Mr. MA Wanjun *(Ceased on 18 October 2016)*

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Mr. ZHU Wenjun
Ms. MUI Ngar May, Joel

PRINCIPAL LEGAL ADVISORS

Hong Kong

Woo Kwan Lee & Lo

Cayman Islands

Conyers Dill & Pearman, Cayman

AUDITORS

KPMG

REGISTERED OFFICE

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

Corporate Information

PRINCIPAL PLACE OF BUSINESS

Hong Kong

Flat 11, 11/F., Hung Tai Industrial Building
37-39 Hung To Road, Kwun Tong
Kowloon, Hong Kong

PRC (Gaming Business)

No. 8, Yuehai Road
Shenzhen
Guangdong Province
518066, PRC

PRC (Copper Business)

No. 68, Jin Xi Road
Hangzhou Bay New Zone
Ningbo
Zhejiang Province
315336, PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
P.O. Box 705
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Bank of China

COMPANY WEBSITE

www.huanyue.com.hk

STOCK CODE

505

Chairman's Statement

On behalf of the board of Directors, I am pleased to present the annual report of Huan Yue Interactive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2016.

The year of 2016 was a new beginning for our Group, during which the Group transformed from a single type of enterprise with main business of manufacturing copper plates and strips to a diversified investment holding company. The Group completed the acquisition of an online game company in August 2016 and officially changed its name to Huan Yue Interactive Holdings Limited in September 2016, marking the Group's entry into a new industry based on the internet economy. The online game industry became the Company's other main business. The Group has established a strategy to focus on the development and expansion of online games and related industries, and maintains stable development of copper plates and strips business, in order to create more value for the shareholders, employees and the society.

The global economy in 2016 barely had any sparkles except the United States. China continued to promote the supply-side reform and transformation and upgrading, low growth trend, which has already been a mid-long term trend, while the Brexit and the dollar's continuously raising interest rates also added more uncertainties to the global economic recovery. During the reporting period, the price of non-ferrous metals stabilized in the first half year, and rose in the second half. The future market of non-ferrous metals is expected to show a shock pattern.

China's copper processing industry in 2016 was affected by the slowdown in economic growth and downstream demand, which resulted in phenomenon of industrial consolidation of discontinued production, limited production, restructuring and etc., as well as other consequences, for example some low-end, high energy consumption enterprises were completely eliminated by the market, and China's copper processing industry entered into the adjustment and transition period. During the reporting period, with the joint efforts of all the staff of the Group's copper processing business, the production and sales of high precision copper plates and strips rose to a record high: the Group had a sales volume of over 120,000 tons, and the Group continued to lead China's high precision copper plates and strips industry.

In 2016, the Group was involved in the online game business for the first time, laying the foundation for the development of diversified business. Since the second half of 2016, games adapted from certain popular Intellectual Property ("IP") were launched, laying a good foundation for rapid development in 2017. Meanwhile, starting to cooperate with overseas platforms brought us more confidence in the future development of the game business.

I am pleased to announce that in 2016 the Company achieved profits attributable to equity holders of the Company of RMB84.8 million, an increase of 351.1% over 2015.

OUTLOOK

China will continue to deepen supply-side reform in 2017, and the quality-over-quantity economic growth model of development will also continue. Under the influence of the policy of deglobalization and trade protectionism, which the new president of the United States may implement, the global economy is expected to be more turbulent and uncertain. In addition, under the effect of rising US Dollar interest rates, global liquidity tightening becomes more and more possible. Therefore, the "stable operation of heavy assets of copper plates and strips with a active development of light assets of online game" is the Company's operating tone in 2017. I believe that under the guidance of our management team, the Group will successfully complete its transformation and upgrading.

APPRECIATION

On behalf of the board of Directors, I would like to express my sincere gratitude and blessings to all shareholders, employees, partners and all sectors of the community.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed by the shareholders of the Company at an extraordinary general meeting held on 13 September 2016, the name of the Company has been changed from "Xingye Copper International Group Limited" to "Huan Yue Interactive Holdings Limited" and the adoption of the Chinese name "歡悅互娛控股有限公司" as the dual foreign name in Chinese of the Company. The Certificate of Incorporation on Change of Name has been issued by the Registrar of Companies in the Cayman Islands on 13 September 2016 and the Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company confirming the registration of the Company's new English and Chinese names of "Huan Yue Interactive Holdings Limited" and "歡悅互娛控股有限公司" respectively in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) was issued by the Registrar of Companies in Hong Kong on 11 October 2016. The stock short names for trading in the shares on the Stock Exchange has been changed to "HUAN YUE INTER" in English and "歡悅互娛" in Chinese with effect from 9:00 a.m. on 20 October 2016.

OVERALL BUSINESS REVIEW

The Group's turnover amounted to RMB3,435.5 million, representing a growth rate of 16.7% compared to RMB2,942.7 million in 2015. The Group's profit attributable to the shareholders increased by 351.1% to RMB84.8 million, from RMB18.8 million in 2015.

ONLINE GAMES BUSINESS

Market and industry review

In 2016, China's gaming industry achieved a scale of RMB165.57 billion, with year-on-year growth of 17.7%. The number of Chinese game players reached 566 million, with year-on-year growth of 5.9%. In 2016, revenue of China's online web game market was RMB18.71 billion. The online web game market gradually turned into a stable stage of development, with a stable industry structure. At the same time, the market demand of game products, such as boutique products, segmented products and new types of products, significantly improved. Also, in 2016, the game market scale in North America was USD25.4 billion, with year-on-year growth of 4.1%; the game market scale in Europe was USD23.5 billion, with year-on-year growth of 7.3%, which provides strong support to the globalisation strategy of Chinese online gaming companies.

Business review

In August 2016, the Group completed the acquisition of Funnytime Limited ("**Funnytime**"), which mainly engages in the development, distribution and operation of internet and mobile gaming products through its wholly-owned subsidiary Soul Dargon Limited and a domestic company Hefei Zhangyue Network Technology Co., Ltd. ("**Zhangyue**") controlled through contractual agreements.

Funnytime realised total revenue of RMB34.4 million and net profit of RMB17.4 million for the year end 31 December 2016. Adjusted net profit (as defined in the Sale and Purchase Agreement) of RMB19.2 million for year 2016 achieved the performance target stipulated in the Sale and Purchase Agreement. Funnytime was consolidated into the Group's financial statements from the acquisition date, with net profit of RMB6.2 million from the acquisition date to 31 December 2016.

Game development: in 2016, Zhangyue developed three online games, which had been on line or in the test phase, including the "Martial Peak" (《武煉巔峰》), as the key Intellectual Property ("**IP**") product cooperated by Zhangyue and Qidian Chinese Net (起點中文網), a well-known online literature website in China.

Game operation: Game operation is the strength of Zhangyue and its main source of profit. In 2016, the total charging record of online games under operation reached RMB130 million and there were ten online web games, of which a well-known IP game called "Scions of Fate" (《熱血江湖傳》) made a contribution of more than 90% to the charging revenue. At the end of 2016, Zhangyue started to operate two rating products, including "Battle of Gaza City" (《百戰沙城》) with more than RMB1 million of monthly game charging revenue. Online game called "Adventure World" (《冒險世界》), which was online in December 2016, has entered the QQ Game Hall (Tencent game platform). In addition, the game operating business of Zhangyue has shifted its strategy to focus on the leisure sports market and mobile games market with long-term income through effective product positioning. As at the end of 2016, Zhangyue had four sub-categories web game products including "Happy Racing" (《開心賽車》), "Bosozoku" (《暴走裝甲》), "King of Gun Battle" (《槍王對決》) and "Cocoa food war" (《可可美食戰記》), all of which were expected to be operated on Tencent's game platforms.

COPPER PLATES AND STRIPS BUSINESS

Market and industry review

In 2016, prices of nonferrous metals were relatively stable during the first half year and relatively high in the second half year, for example, the price of cathode copper showed a stable pattern in the first three quarters, but under the influence of other bulk commodities in the fourth quarter, it showed a price increase, which has been rarely seen in recent years. It is estimated that the prices of nonferrous metals will be volatile with a rising trend. In 2016, as China's economy continued to promote supply-side reform as well as transformation and upgrading, the copper plates and strips industry also experienced structural change, with certain enterprises having been eliminated, and other enterprises in assets reorganisation. Industry performance rebounded compared with that of previous years.

Business review

During the reporting period, the Group's copper processing business realised a total revenue of RMB3,418.9 million and sales volume of 126,598 tons, representing an increase of 16.2% and 23.0% respectively over 2015. The revenue of precision copper plates and strips was RMB3,202.2 million, representing an increase of 25.0% from RMB2,560.8 million of last year. The sales volume of precision copper plates and strips was 89,541 tons, representing an increase of 34.4% from 66,619 tons in the same period of last year. The increase in copper plates and strips revenue was mainly due to the Group's increased sales volume of high value-added brass products during the reporting period. During the reporting period, copper products processing services revenue reached RMB160.9 million, representing an increase of 12.8% from RMB142.7 million of last year. The volume of processing services were 32,231 tons, representing an increase of 15.9% from 27,799 tons of last year. During the reporting period, the revenue of trading of raw materials was RMB55.8 million, representing a decrease of 76.7% from RMB239.2 million of last year. While trade sales were 4,826 tons, representing a decrease of 43.5% from 8,545 tons of last year. The decrease in revenue and sales volume of trading was mainly due to the Group put more emphasis on the production and sales of copper products.

Business development

Innovative research and development: In 2016, the Group continued to strengthen process innovation and product innovation. Process innovation has significantly increased the quality and yield of lead frame series of high value-added brass products. We conducted effective marketing strategies for targeted customers, and these new products not only gained customer recognition, but also contributed to the Group's profits. During the reporting period, the Group's copper plates and strips operating company Ningbo Xingye Shengtai Group Ltd. ("**Shengtai Group**") became one of the units for the Tenth Five-Year Plan major R&D project: "high-performance high-precision copper and copper alloy plate and strip manufacturing". During the reporting period, Shengtai Group developed two new products of copper and nickel as well as copper and zinc alloy, and declared new product achievements to industry associations and local government.

Management system optimisation: In 2016, in order to adapt to large-scale production and management after major technological transformation and upgrading of equipment, Shengtai Group optimised its organisational framework and established a new materials center, which regulated and controlled all kinds of resource elements required in the established production process, as well as optimising the sales center and manufacturing, to be more convenient for connections between production and external clients.

OUTLOOK

In 2017, we will continue to uphold the concept of innovation and development. Under the business idea of "sound management of heavy assets business, actively develop light assets business", we will continue to develop our copper plate and strip business, and strive to make the online games business into the ranks of well-known gaming companies in China, ultimately seeking to achieve greater benefits and returns for the Company's shareholders.

FINANCIAL REVIEW

Revenue and gross profit

The Group's copper business achieved a total revenue of RMB3,418.9 million for the year ended 31 December 2016, and the Group's online gaming business achieved revenue of RMB16.6 million since it was consolidated into the Group from the acquisition date.

For the year ended 31 December 2016, the Group recorded total sales revenue of RMB3,435.5 million, which increased by 16.7% from RMB2,942.7 million of last year. The increase in sales revenue of the Group's copper business was mainly due to an increase in sales volume of copper products during 2016.

The Group sold 126,598 tons of copper products, which increased by 23.0% from 102,963 tons of 2015.

The Group recorded a gross profit of RMB552.5 million in 2016, which increased by 113.9% as compared with 2015. The increase in gross profit is mainly due to an increase in copper price, and the largest customer of the Group having made more orders on a high margin brass product during 2016.

Other income

For the year ended 31 December 2016, the Group recorded other income of RMB29.3 million, which decreased by RMB27.7 million as compared to 2015, which was mainly attributable to a decrease in government grants.

Other expenses

For the year ended 31 December 2016, other expenses of the Group was RMB106.4 million, which increased by RMB95.1 million from RMB11.3 million in 2015. This was mainly attributable to the impairment loss of property, plant and equipment of the Group's copper business in 2016.

Management Discussion and Analysis

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd., and certain production machinery and equipment became idle. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their recoverable amount of RMB8,674,000. An impairment loss of RMB24,849,000 was recognised in "Other expenses".

During the year ended 31 December 2016, the Group identified indicators of potential impairment of a copper product production line with a carrying amount of RMB344,407,000 as at 31 December 2016 because certain technical specifications of the production line's key machinery were not satisfactory enough to produce the budgeted specialised output and also because the capacity of the production line was affected, which might lead to economic or functional obsolescence. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their recoverable amount of RMB264,136,000. An impairment loss of RMB80,271,000 was recognised in "Other expenses".

Distribution expenses

For the year ended 31 December 2016, the distribution expenses of the Group increased by RMB21.4 million from RMB27.0 million of 2015 to RMB48.4 million, which was mainly attributable to an increase in freight expenses due to an increase in sales volumes, and the Group having engaged a third party to handle distribution services in Xiamen, China with a volume based fee.

Administrative expenses

For the year ended 31 December 2016, administrative expenses of the Group increased by RMB62.1 million from RMB204.4 million of 2015 to RMB266.5 million, which was mainly due to an increase in R&D (research and development) expenses.

Net finance costs

For the year ended 31 December 2016, the Group's net finance costs increased to RMB48.4 million from RMB46.5 million of 2015. It is mainly because the net loss of foreign exchange of 2016 is more than that of 2015 by RMB4.5 million.

Income tax

For the year ended 31 December 2016, the Group's income tax expenses increased by RMB17.0 million to RMB22.3 million from RMB5.3 million of 2015, while the effective tax rate remained stable.

Profit attributable to the shareholders of the Company

As a result of the aforementioned factors, during the year, the profit attributable to the shareholders of the Company was increased by RMB66.0 million to RMB84.8 million from RMB18.8 million of 2015.

Liquidity and financial resources

As at 31 December 2016, the Group recorded net current liabilities of RMB212.3 million, compared with net current assets of RMB6.5 million as at 31 December 2015, which was primarily due to the acquisition of the gaming business of RMB82.5 million (net of cash acquired) for the first installment of cash consideration and the purchase of property, plant and equipment of RMB94.2 million during the reporting period.

The short-term interest-bearing borrowings represented 88.6% of total interest-bearing borrowings as of 31 December 2016. As at the date of this announcement, the Group had not experienced any difficulty in raising funds by securing and rolling over short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

The Group is able to generate cash from operating activities, has good credit standing and relationships with principal lending banks, and possesses available undrawn banking facilities together with bank deposits of RMB762.9 million (including long term loan facilities amounted to RMB182.1 million effective until 2018) and RMB218.5 million (comprised of pledged deposits of RMB49.6 million and cash and cash equivalents of RMB168.9 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over existing short-term bank borrowings upon maturity in the coming year. The Board is confident that the Group has adequate financial resources to sustain its working capital requirements and meet its foreseeable debt repayment requirements.

As at 31 December 2016, the Group had outstanding bank loans and other borrowings of approximately RMB622.3 million which shall be repaid within 1 year. As at 31 December 2016, 68.6% of the Group's debts were on a secured basis.

The gearing ratio as at 31 December 2016 was 38.3% (31 December 2015: 44.1%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

Charge on assets

As at 31 December 2016, the Group pledged assets with an aggregate carrying value of RMB1,167.1 million (31 December 2015: RMB968.2 million) to secure bank loan facilities.

Capital expenditure

During the year ended 31 December 2016, the Group had invested RMB94.2 million in the purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank loans. The Group acquired its gaming business subsidiaries in 2016, and paid RMB82.5 million (net of cash acquired) for the first installment of cash consideration for the acquisition. The acquisition was largely financed by internal resources.

Capital commitments

As at 31 December 2016, future capital expenditures, for which the Group had contracted but not provided for, amounted to approximately RMB8.1 million.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

MARKET RISK

The Group was exposed to various types of market risks, including fluctuation in copper prices and other commodities' prices and changes in interest rates and foreign exchange rates.

EMPLOYEES

As at 31 December 2016, the Group had 1,282 employees, of which the copper business and online gaming business had 1,193 and 89 employees respectively. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to our employees. Benefits of the employees include salaries, pension, medical insurance scheme and other applicable social insurance. In addition, share options or share award may be granted or awarded to eligible employees of the Group (including directors) in accordance with the terms of the approved share option scheme or share award scheme respectively. Promotion and salary increments are assessed based on performance. The Group's growth is dependent upon the skills and dedication of its employees. The Group recognises the importance of human resources in a competitive industry and has devoted resources to train employees. The Group has established an annual training program for our employees so that new employees can master the skills required to perform their roles and responsibilities and the existing employees can upgrade or improve their skills.

ENVIRONMENTAL AND REGULATORY POLICES

Environmental protection and energy conservation are the fundamental standards in our production and operations. The Group has made vigorous endeavors to foster the recycling of resources and has established dedicated recovery plants that recycle the relevant metals and other resources for remanufacturing purposes in order to minimise the impact on the environment. As part of our efforts to cut energy consumption, the Group has renovated certain equipment with high energy consumption. The Group will continue to use different ways to lower energy consumption and augment utilisation efficiency of energy.

The Group has required strict compliance of its suppliers with environmental regulations and will return and reject raw materials containing hazardous substances exceeding the recommended limits in terms of concentration or goods for which certificates, approval and verification issued by relevant regulatory authorities have not been obtained.

In 2016, Shengtai Group was honored by the local government as a Clean Production Enterprise of Ningbo City.

The principal operating companies of the Group are situated in mainland China, whilst the Company was incorporated in the Cayman Islands and its shares are listed in Hong Kong. The Group has complied with all the relevant laws, rules and regulations in mainland China, the Cayman Islands and Hong Kong.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016, except that the trustee of the share award scheme adopted by the Company on 18 April 2016 (the "**Share Award Scheme**"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 4,021,000 shares of the Company at a total consideration of HKD3,711,641 (equivalent to RMB3,256,000) during the year.

Corporate Governance Report

The Board is committed to promote good corporate governance to safeguard the interests of the shareholders of the Company (the "**Shareholders**") and believes that maintaining a high standard of corporate governance is essential to the success of the Company and would provide a practice enhancing greater accountability and transparency and meeting the expectations of all of the Group's various stakeholders.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2016, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The current practices will be reviewed by the Board regularly to follow the latest practices of corporate governance.

COMPLIANCE WITH THE MODEL CODE AS SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors of the Company (the "**Directors**"), all the Directors confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2016.

BOARD

Board composition

The Board currently has five Executive Directors, namely, Mr. HU Changyuan (Chairman), Mr. HU Minglie (Chief Executive Officer), Mr. CHEN Jianhua, Mr. REN Hao (appointed on 18 October 2016) and Mr. ZHU Wenjun (appointed on 18 October 2016), one non-executive Director, namely, Mr. DAI Jianchun and three independent non-executive Directors, namely, Mr. CHAI Chaoming, Dr. LOU Dong and Ms. LU Hong (elected on 27 May 2016). The size and composition of the Board are reviewed regularly to ensure that they are well balanced with each Director having sound knowledge, experience and expertise relevant to the business and development of the Group. There is no financial, business, family or other material relationships among members of the Board except for a family relationship between Mr. HU Changyuan (Chairman) and Mr. HU Minglie (Chief Executive Officer). Biographical details of the Directors and relationship among Directors are set forth in the section headed "Biographical Details of the Directors" of this Annual Report.

An updated list of its Directors identifying their roles and functions and whether they are independent non-executive directors is published on the Company's website and the designated website of Hong Kong Exchanges and Clearing Limited (the "**Exchange's website**").

At least one-third of the members of the Board are independent non-executive Directors and the Board comprises at least three independent non-executive Directors, which meet the minimum requirements of the Listing Rules. Therefore the number of the independent non-executive Directors appointed by the Company is in compliance with Rule 3.10 and Rule 3.10A of the Listing Rules.

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Company has received annual confirmation of independence from the three independent non-executive Directors. The Board is of the view that all independent non-executive Directors are independent within the definition of the Listing Rules.

Responsibilities of the Board

The principal duty of the Board is to ensure that the Company is properly managed in the interests of the Shareholders. The Board, led by the Chairman, is responsible for giving guidance to and exercising effective checks on the management. In general, the duties of the Board are: (i) formulating long-term strategies of the Group and supervising their implementation; (ii) reviewing and approving the business plans and financial budgets of the Group; (iii) approving the annual and interim results of the Group; (iv) reviewing and supervising risk management and internal control of the Group; (v) ensuring a high standard of corporate governance and compliance; and (vi) overseeing the performance of the management.

The Board delegates on specific terms to the management to carry out defined strategies and report to the Board in respect of day-to-day operations. For such purposes, the Board has laid down clear terms of reference which specify those circumstances under which the management shall report to the Board and those decisions and commitments for which prior approval of the Board is required.

The Company convenes at least four regular Board meetings a year and meets more frequently as and when required. During the year ended 31 December 2016, the Board convened a total of 5 Board meetings and the individual attendance record of the Directors is tabulated as follows:

Name of Director	Number of meetings held while being a Director	Number of meetings attended
Executive Directors		
Mr. HU Changyuan *(Chairman)*	5	5
Mr. HU Minglie *(Chief Executive Officer)*	5	5
Mr. CHEN Jianhua	5	5
Mr. REN Hao *(Appointed on 18 October 2016)*	1	1
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*	1	1
Mr. WANG Jianli *(Resigned on 18 October 2016)*	4	4
Mr. MA Wanjun *(Resigned on 18 October 2016)*	4	4
Non-executive Director		
Mr. DAI Jianchun	5	5
Independent Non-executive Directors		
Mr. CHAI Chaoming	5	5
Dr. LOU Dong	5	5
Ms. LU Hong *(Elected on 27 May 2016)*	2	2
Mr. MAO Xuechang *(Retired on 27 May 2016)*	3	3

Notice of at least 14 days should be given to the Directors of a regular Board meeting to give all Directors an opportunity to attend the meeting. All Directors are supplied with comprehensive Board papers and relevant materials within a reasonable period of time before the intended meeting date (usually no less than one week before the Board meeting). In respect of regular Board meetings, and so far as practicable in all other cases, an agenda and accompanying Board papers should be sent in full to all Directors in a timely manner and at least 3 days before the intended date of Board meeting or Board committees meeting, which ensure that all Directors would have the opportunity to include matters in the agenda.

Directors are free to express their views at the meetings of the Board. Important decisions will only be made after detailed discussion at the Board meetings. Directors confirmed that they have responsibility to act in the interests of the public and the Company, particularly in the interests of minority Shareholders. In the event of a conflict of interests between Shareholders' interests and any other interests, Shareholders' interests shall prevail.

Directors have free access to the management for enquiries and to obtain further information so as to facilitate the decision-making process. The management would also be invited to attend Board meetings from time to time for detailed explanation of the issues under discussion and respond to enquiries from the Directors.

Detailed minutes of meetings are compiled for Board meetings or Board committee meetings. Minutes of the meetings must record issues in detail which are considered by the Directors during the meeting as well as the resolutions passed, including any concerns or objections put forward by the Directors.

One week's time will be available to all the Directors and the Board committee members to provide comments on the draft minutes of the relevant meetings. The draft minutes will then be approved with confirmation given by the Chairman or the chairman of the Board committee.

Minutes of Board meetings or Board committee meetings are kept by the secretary to the Board or the Company Secretary and are available for inspection by the Directors at all times.

All Directors are free to communicate with the secretary to the Board and the Company Secretary who are responsible for ensuring and advising on compliance of all procedures in connection with the Board and all applicable rules and regulations.

The Board and Board committees are provided with sufficient resources for performance of their duties including but not limited to hiring consultants when necessary at the expense of the Company. Individual Directors can also hire consultants for advice on any specific issues at the expense of the Company.

All Directors can obtain from the secretary to the Board or the Company Secretary timely information and latest development about rules and regulations and other continual responsibilities which directors of listed companies must observe so as to ensure that each Director is informed of his/her own duties and that the Company implements Board procedures consistently and complies with the legislations properly.

Corporate Governance Functions

The Company is committed to achieving high standards of corporate governance to safeguard, uphold and maximize the interests of Shareholders and to enhance corporate value and accountability. The Board is responsible for the following corporate governance duties:

– To develop, review and update the Company's policies and practices on corporate governance;

– To review and monitor the training and continuous professional development of directors and senior management;

– To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

– To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

– To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year under review, the Board had performed the above duties.

Directors' and officers' liability

Appropriate directors' and officers' liability insurance has been arranged for the Directors and officers of the Company.

Directors' training and continuing professional development

The Directors are committed to comply with Code Provision A.6.5 of the CG Code on Directors' training so as to ensure that their contribution to the Board will be informed and relevant.

The Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. The Company from time to time updates and provides written training materials to the Directors, and organizes seminars on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices.

All Directors have participated in appropriate continuous professional development programmes and reading materials to develop and refresh their knowledge and skills and provided the Company their record of training they received for the year ended 31 December 2016.

DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL

The Company follows a formal considered and transparent procedure for the appointment of new directors. The Nomination Committee has formulated a nomination policy and is responsible for identifying and nominating suitable candidates for the Board's consideration as additional directors or to fill in casual vacancies on the Board and making recommendations to the shareholders regarding any directors proposed appointment or re-election at annual general meetings.

Details of the selection process of new directors and a summary of work performed by the Nomination Committee in 2016 are set out under the "Nomination Committee" section below.

According to Articles 87 (1) and (2) of the Company's Articles of Association, one-third of the Directors shall retire from office by rotation at least once every three years and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Any Director appointed by the Board pursuant to Article 86(3) shall not be taken into account in determining which particular Director or the number of Directors who are to retire by rotation. Pursuant to Article 86(3) of the Company's Articles of Association, any Director appointed by the Board either to fill a casual vacancy or as an addition shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election.

Each of the executive Directors of the Company had entered into a service contract with the Company with effect from their respective date of appointment until terminated in accordance with the term of the service contracts. Under the service contracts, either the executive Director or the Company may terminate such appointment at any time by giving to the other not less than three month's prior notice in writing.

The non-executive Director and each of the independent non-executive Directors of the Company had entered into an appointment letter with the Company and were appointed for a term of 3 years.

DIVISION OF RESPONSIBILITIES

The posts of Chairman and the Chief Executive Officer are distinct and separate. The Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the businesses of the Group. The current Chairman and Chief Executive Officer of the Company are Mr. HU Changyuan and Mr. HU Minglie, respectively.

The Board has three independent non-executive Directors who have brought in strong independent judgment, knowledge and experience. In addition, each executive Director is delegated individual responsibilities to monitor and oversee operations of a specific area, and to implement strategies and policies that are set by the Board. Currently, the majority of members of each of the Audit Committee, the Remuneration Committee and the Nomination Committee are independent non-executive Directors. This structure ensures a sufficient balance of power and authority as well as a segregation of powers within the Group.

BOARD COMMITTEES

The Board has appointed the following Board committees to oversee particular aspects of the Company's affairs:

Audit Committee

The Audit Committee was established on 1 December 2007 with specific written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board in accordance with the requirements of Listing Rules and the CG Code, which are published on the Company's website and the Exchange's website. During the year under report, the Audit Committee comprises three members, including two independent non-executive Directors, namely, Mr. MAO Xuechang (ceased on 27 May 2016), Mr. CHAI Chaoming (Chairman) and Ms. LU Hong (appointed on 27 May 2016), and one non-executive Director, namely, Mr. DAI Jianchun. The Audit Committee meets formally at least twice a year.

In view of the new requirements in respect of risk management and internal control systems of listed issuers under the revised CG Code which apply to accounting periods beginning on or after 1 January 2016, the terms of reference of the Audit Committee were revised effective on 1 January 2016 to align with the revised CG Code. The Audit Committee will continue to oversee the Company's financial reporting system, risk management and internal control systems.

Two Audit Committee meetings were held during the year ended 31 December 2016. At the meetings, the members of the Audit Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Audit Committee is tabulated as follows:

Name of Member	Number of meetings held while being a Member	Number of meetings attended
Mr. DAI Jianchun	2	2
Mr. CHAI Chaoming *(Chairman)*	2	2
Ms. LU Hong *(Appointed on 27 May 2016)*	1	1
Mr. MAO Xuechang *(Ceased on 27 May 2016)*	1	1

The major duties and responsibilities of the Audit Committee include the followings:

– to review the Group's annual and interim reports as well as financial reports, recommendations on management put forward by auditors and responses from the Company's management;

– to review matters related to accounting policies and accounting practices adopted by the Group;

– to review the risk management and internal control systems of the Company;

– to review internal control matters with the external auditors;

– to review the external auditors' statutory audit plan and letters to the management;

– to advise the Board on appointment, re-appointment and removal of hired external auditors, approve remuneration and terms of appointment of external auditors and to handle any problems in relation to the resignation or dismissal of auditors; and

– to review continuing connected transactions and examine the adequacy of internal controls of the Group as part of the standard procedures.

The duties of the Audit Committee include reviewing the scope and results of the audit and its cost effectiveness, and the independence and the objectivity of the Company's auditor. The Audit Committee will review the independence of the Company's auditor and the resources and adequacy of the internal audit function at least once a year. Where the auditor also supplies non-audit services to the Company, the Audit Committee will keep the nature and extent of such services under review, and seek a balance between the maintenance of objectivity and value for money.

The Audit Committee has undertaken a review of all the non-audit services provided by the Company's auditor and concluded that in their opinion such services did not affect the independence of the auditor. The Audit Committee has free access to the accountants and senior management of the Group and to any financial and relevant information which enable them to discharge their functions effectively and efficiently. Besides internal assistance being available, the Audit Committee may request for assistance and advice from external auditors as and when they think necessary at the expenses of the Company. The Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the external auditors. In addition, the Audit Committee should meet with the external auditors without the presence of the executive Directors to discuss the Group's financial reporting and any major and financial matters arising during the year under review at least once a year.

In addition, the Audit Committee is authorized:

– to investigate into any matter within the ambit of its written terms of reference;

– to have full access to and co-operation by the management;

– to have full discretion to invite any Director or executive officer to attend its meetings; and

– to have reasonable resources to enable it to discharge its functions properly.

Remuneration Committee

The Remuneration Committee was established on 1 December 2007 with specific written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board in accordance with the requirements of the Listing Rules and the CG Code, which are published on the Company's website and the Exchange's website. During the year under report, the Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely Mr. MAO Xuechang (ceased on 27 May 2016), Dr. LOU Dong (Chairman) and Ms. LU Hong (appointed on 27 May 2016) and Mr. WANG Jianli (ceased on 18 October 2016) and Mr. ZHU Wenjun (appointed on 18 October 2016). Its primary objective is to ensure that the Company can recruit, retain and motivate high-calibre staff in order to reinforce the success of the Company and create value for our Shareholders. The Remuneration Committee is also responsible for making recommendations to the Board on Directors' remuneration packages and on establishment of a formal and transparent procedure for developing remuneration policy. When recommending the remuneration package for each individual Director, the Remuneration Committee will consider his/her qualification(s) and experience, specific duties and the prevailing market packages available for a similar position. The Remuneration Committee shall aim to meet at least twice a year.

Three Remuneration Committee meetings were held during the year ended 31 December 2016. At the meetings, the Remuneration Committee reviewed remuneration policy and packages of the Directors and senior management and new candidates proposed to be directors and their related service contracts or appointment letters, and made recommendation to the Board for approval. The individual attendance record of each member of the Remuneration Committee is tabulated as follows:

Name of Member	**Number of meetings held while being a Member**	**Number of meetings attended**
Dr. LOU Dong *(Chairman)*	3	3
Mr. MAO Xuechang *(Ceased on 27 May 2016)*	1	1
Mr. WANG Jianli *(Ceased on 18 October 2016)*	3	3
Ms. LU Hong *(Appointed on 27 May 2016)*	1	1
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*	0	0

The remuneration of members of the senior management (including all executive directors of the Company) by band for the year ended 31 December, 2016 is set out below:

Remuneration bands *(RMB)*	**Number of person(s)**
0 to 1,000,000	6
1,000,001 to 2,000,000	0

Nomination Committee

The Nomination Committee was established on 1 December 2007 with specific written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board in accordance with the requirements of the CG Code, which are published on the Company's website and the Exchange's website. During the year under report, the Nomination Committee comprises three independent non-executive Directors, one non-executive Director and one executive Director, namely, Mr. MAO Xuechang (ceased on 27 May 2016), Mr. CHAI Chaoming (Chairman), Dr. LOU Dong, Ms. LU Hong (appointed on 27 May 2016), Mr. DAI Jianchun, Mr. MA Wanjun (ceased on 18 October 2016) and Mr. REN Hao (appointed on 18 October 2016). The Nomination Committee meets formally at least once a year.

Three Nomination Committee meetings were held during the year ended 31 December 2016. At the meetings, the members of the Nomination Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Name of Member	Number of meetings held while being a Member	Number of meetings attended
Mr. CHAI Chaoming *(Chairman)*	3	3
Mr. MAO Xuechang *(Ceased on 27 May 2016)*	2	2
Dr. LOU Dong	3	3
Mr. DAI Jianchun	3	3
Mr. MA Wanjun *(Ceased on 18 October 2016)*	3	3
Ms. LU Hong *(Appointed on 27 May 2016)*	1	1
Mr. REN Hao *(Appointed on 18 October 2016)*	0	0

According to the written terms of reference of the Nomination Committee, the major duties and responsibilities of the Nomination Committee include:

– regularly review the structure, size and composition of the Board and make recommendations to the Board with regard to any adjustments that are deemed necessary;

– review whether or not an independent non-executive Director is independent for the purpose of the Listing Rules on an annual basis;

– be responsible for identifying and nominating appropriate candidate(s) to fill Board vacancies as and when they arise;

– assess the effectiveness of the Board as a whole and the contribution by each individual Director to the effectiveness of the Board; and

– to advise the Board on issues regarding appointment or re-appointment of Directors and succession of Directors.

During 2016, Ms. LU Hong was appointed as Director by Shareholders at the annual general meeting. Mr. REN Hao and Mr. ZHU Wenjun were appointed as Directors by the Board. In considering the new appointments of directors, the Nomination Committee assessed the candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively, as well as independent factors as required under the Listing Rules, etc., and made recommendations to the Board for approval.

The Nomination Committee had convened a meeting for the nomination of Directors for re-election at the forthcoming annual general meeting of the Company and had resolved that which Directors shall retire, and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy with effect from 28 August 2013 and discussed all measurable objectives (if any) set for implementing the policy.

The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board will be immensely beneficial for the enhancement of the Company's performance. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional and industry experience, skills, knowledge and length of service. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' acknowledgement

The Board acknowledges its responsibilities for the preparation of the financial statements for each financial year, which should give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flow for that year in compliance with relevant laws and disclosure provisions of the Listing Rules.

In preparing the financial statements for the year ended 31 December 2016, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the reporting year have been prepared on a going-concern basis.

The responsibility of the external auditors is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the Shareholders of the Company. A statement by the auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Auditors' Remuneration

During the year, the Company engaged KPMG as the external auditors of the Group until the conclusion of the next Annual General Meeting.

The fees in respect of audit services provided by KPMG for the year ended 31 December 2016 amounted to approximately RMB2.9 million.

Risk Management and Internal Control

The Board acknowledges its responsibility for maintaining sound and effective risk management and internal control systems of the Group and reviewing their effectiveness on an ongoing basis. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee. Management has provided a confirmation to the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2016. The risk management and internal control systems are designed to manage, not eliminate, the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The main framework of the Group's risk management and internal control systems at each level are summarized as follows:

- the Board evaluates and determines the nature and extent of risks it is willing to take in achieving the Group's strategic objectives;
- the Audit Committee oversees management in the design, implementation and monitoring of the risk management and internal control systems;
- the management designs, implements and maintains appropriate and effective risk management and internal control systems, monitors risks and takes measures to mitigate risks in day-to-day operations, and;
- the Internal Audit and Risk Management Department reviews the adequacy and effectiveness of the Group's risk management and internal control systems, and reports to the Audit Committee the findings of the review and makes recommendations to the Boards and management to improve the material weaknesses.

Process Used to Identify, Evaluate and Manage Significant Risks

The processes used to identify, evaluate and manage significant risks by the Group are set below:

Risk Identification and Assessment

- Identifies risks that may potentially affect the Group's business and operations;
- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

The Company has set up a department for risk control and internal audit of the Group. The review of risk management and internal control will be conducted quarterly.

The scope of review was suggested by the Risk Management and Internal Audit Department, and was previously approved by the Audit Committee. The Risk Management and Internal Audit Department has reported major findings and areas for improvement to the Audit Committee. All recommendations from the Risk Management and Internal Audit Department are properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

During the year, the Directors, through the Audit committee, reviewed the effectiveness of the risk management and internal control systems, and considered the such systems to be effective and adequate.

Dissemination of Inside Information

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted the Disclosure Policy which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With these guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

Whistle Blowing Policy

To achieve and maintain the highest standards of openness, probity and accountability, the Company adopted a whistle blowing policy from 29 March 2012. This policy aims to govern and deal fairly and properly with concerns raised by the Company's employees about any suspected misconduct or malpractice regarding financial reporting, internal control or other matters within the Company.

COMPANY SECRETARY

The Company has engaged and appointed a representative from an external secretarial services provider as the Company Secretary of the Company. The primary contact person of the Company with the company secretary is Mr. ZHU Wenjun, an executive Director and the Chief Financial Officer of the Group. The biographical details of Mr. ZHU Wenjun are set out under the section headed "Biographical Details of Directors".

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2016.

SHAREHOLDER AND INVESTOR RELATIONS

Communication with Shareholders and Investors

The Company is committed to providing Shareholders and other stakeholders (including potential investors) with balanced and understandable information about the Company. The Company uses various communication methods to ensure its Shareholders are kept well informed of key business imperatives. These include general meetings, annual reports, interim reports, various notices, announcements and circulars.

To ensure all Shareholders timely access to important corporate information, the Company utilises its corporate website to disseminate to the Shareholders information such as announcements, circulars and annual and interim reports. Any information or documents of the Company posted on the Exchange's website are also published on the Company's website (www.huanyue.com.hk) under the "Investor Relations" section. Other corporate information about the Company's business developments, goals and strategies, corporate governance and risk management are also available on the Company's website.

The Board continues to maintain regular dialogue with institutional investors and analysts to keep them informed the Group's strategy, operations, management and plans.

The annual general meeting and other general meetings of the Company provide a useful forum for Shareholders to exchange views with the Board. The Company provides Shareholders with relevant 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 Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. The Chairman of the Board and other Directors, the chairmen of board committees or their delegates, and the representative of external auditors are available to answer Shareholders' questions at the annual general meeting. The chairman of the independent board committee or his/her delegate will be also available to answer questions at any general meeting if a connected transaction or any other transaction that is subject to independent shareholders' approval is required.

The individual attendance record of the Directors at the 2016 annual general meeting ("**AGM**") and an extraordinary general meeting ("**1st EGM**") both held on 27 May 2016 and an extraordinary general meeting ("**2nd EGM**") held on 13 September 2016 is tabulated below:

	AGM	1st EGM	2nd EGM
Executive Directors			
Mr. HU Changyuan *(Chairman)*	1	1	1
Mr. HU Minglie *(Chief Executive Officer)*	1	1	1
Mr. WANG Jianli *(Resigned on 18 October 2016)*	1	1	1
Mr. MA Wanjun *(Resigned on 18 October 2016)*	1	1	1
Mr. CHEN Jianhua	1	1	1
Mr. REN Hao *(Appointed on 18 October 2016)*	N/A	N/A	N/A
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*	N/A	N/A	N/A
Non-executive Director			
Mr. DAI Jianchun	1	1	1
Independent Non-executive Directors			
Mr. MAO Xuechang *(Retired on 27 May 2016)*	1	1	N/A
Mr. CHAI Chaoming	1	1	1
Dr. LOU Dong	1	1	1
Ms. LU Hong *(Elected on 27 May 2016)*	N/A	N/A	1

Shareholders may make direct enquiries about their shareholdings to the Company's Hong Kong branch share registrars. To the extent the requisite information of the Company is publicly available, Shareholders and other stakeholders (including potential investors) may put forward their enquiries about the Company to the Board or the Company Secretary at the Company's head office in Hong Kong or by email or through the Investor Relations Adviser of the Company whose contact details are also available on the Company's website.

SHAREHOLDERS' RIGHTS

Procedure for Shareholders to put forward enquiries to the Board

The Company's website provides an email address and enquiry telephone lines to enable Shareholders of the Company to make any enquiries and concerns to the Board. Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling.

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles of Association of the Company, 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 shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so 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 to the requisitionist(s) by the Company.

Procedures for Shareholders to put forward proposals at general meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, However, shareholders are requested to follow Article 58 of the Company's Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above.

If a Shareholder wishes to propose a person (the "**Candidate**") for election as a director of the Company at a general meeting, he/she shall deposit a written notice at the Company's head office at Flat 11, 11th Floor, Hung Tai Industrial Building, 37-39 Hung To Road, Kwun Tong, Kowloon, Hong Kong or Hong Kong Branch Share Registrar and Transfer Office, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. The written notice must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules.

The procedures for Shareholders to propose a person for election as director is published on the Company's website.

CONSTITUTIONAL DOCUMENTS

The constitutional documents of the Company (i.e. the memorandum and Articles of Association) are available on the Company's website and the Exchange's website. There are no changes in the Company's constitutional documents during the year.

I. PREFACE

1. Address from Chairman of Board

In 2016, Huan Yue Interactive Holdings Limited actively responded to the complex macroeconomic environment and industry integration, kept up with the supply-side structural reform initiated by the Chinese government, and faced the new state of China's economic growth and strengthened the core competitiveness of the enterprise itself. Adhering to 2016 annual work policy of "Increasing Output, Raising Revenues and Reducing Expenditures and Steady Development", with the efforts of all employees and the support of all sectors of society and partners, the sales of copper plates and strips hit a record high in 2016 and achieved a substantial growth performance compared to last year. Copper plates and strips business of the Company will maintain a good development momentum and the Company aims at becoming the first-class professional supplier of copper alloy plates and strips internationally.

In past development, Huan Yue Interactive Holdings Limited kept to follow the business philosophy of "Happiness of Employees, Sensation of Customers, Satisfaction of Shareholders and Recognition of Society", adhered to the basic principle of honest and trustworthy, strictly abided by laws and regulations, actively advocated "Green Development & Harmonious Development", persistently promoted technology research and development, product research and development, process research and development and speeded up development towards intelligent manufacturing. The Company thoroughly promoted the concept of production safety, constantly improved the production safety system and training system and created a good environment for safe production. Sustained building of happy homeland, advocacy of "home" culture and establishment of compulsory education and training system of employees meet the needs of employees' own development and enable employees to enjoy happy work and happy life. The Company will strengthen the quality service system and customer service system with "customer demands" orientation, adhere to the concept of customer first and "Win-Win Cooperation & Hand In Hand Development", insist to repay and share development achievements with society and make efforts to become a respected enterprise.

2. 2016 Memorabilia of Subsidiaries Engaging in Copper Plates and Strips Business

2016
January:

(1) Ningbo Model Enterprise of Deep Integration of Informatization and Industrialization

(2) The First Prize of Science & Technology Award of China Nonferrous Metals Industry (HSn88-1)

(3) The Third Prize of Science & Technology Award of China Nonferrous Metals Industry (Ag-cu)

On 3 February:

(1) 2015 Top 20 Taxpayer of Hangzhou Bay New Zone

(2) 2015 Special Award for Industrial Economy and Technical Transformation of Hangzhou Bay New Zone

(3) 2015 Special Award for Industrial Economy Innovation of Hangzhou Bay New Zone

On 29 March: 2015 Annual Results Announcement

May: The first prize of new product of Ningbo Key Industry

June: Ranking the 15th of Ningbo Top 100 Competitive Enterprises, the 34th of Ningbo Top 100 Manufacturing Enterprises and the 66th of Ningbo Top 100 Comprehensive Enterprises

July: Vice Chairman Unit of the 7th Session of China Nonferrous Metals Industry Association

September: One of the Units Undertaking "Manufacturing Technology of High Performance and High Precision Copper and Copper Alloy Plates and Strips" as Key Research and Development Project of the 13th National Five-year Plan

October: Ningbo Top 50 Private Enterprises

November: Presiding over the Draft of Zhejiang Manufacturing Standard of "Copper Alloy Strips and Foil for LED Lead Frame"

December: Top 20 Taxpayer of Hangzhou Bay New Zone, 2016 Ningbo Qualified Enterprise of Cleaner Production Check and Acceptance

3. Information on this Report

(1) *Basis of Preparation*

This report was prepared in accordance with Appendix 27 of the Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**"). The reporting period is between 1 January 2016 and 31 December 2016. A brief review of previous activities contained in part of this report.

(2) *Release Cycle*

This report is issued annually. The Environmental, Social and Governance Report of the next reporting period (2017) is expected to be released in April 2018. This report will be published on the website of the Hong Kong Stock Exchange and the Company's official website simultaneously.

(3) *Coverage of Report*

This report covers the entities of Huan Yue Interactive Holdings Limited and its subsidiaries and the only business of copper plates and strips manufacturing. In 2016, the business income of copper plates and strips manufacturing accounted for 99.5% of the Company's total business income.

(4) *Data Source*

The data contained in this report is sourced from internal documents of Huan Yue Interactive Holdings Limited and its subsidiaries and related statistical materials.

(5) *Statement on Reference*

For convenience of expression, "Huan Yue Interactive Holdings Limited" is also referred to as "Huan Yue Interactive" or the "Company" in this report.

II. ENVIRONMENTAL GOVERNANCE

"Green Hills and Clean Waters are comparable to Gold & Silver Mountain", green development and green production is what is advocated by the government and also demanded by the enterprise's development. The Company has always been focusing on the above task and unceasingly promoting it among the staff, so that the concept of "Green Development, Green Production, Energy Conservation and Environmental Protection" can be rooted in the ideas and daily behaviors of the entire staff. In daily operation, the Company strictly abides by the various laws and regulations of China, such as the Environmental Protection Act, the Law on the Prevention and Control of Water Pollution, the Law on the Prevention and Control of Environmental Pollution by Solid Wastes, etc. No major violation has occurred during the reporting period.

1. Energy Conservation and Emissions Reduction and Production

1. Use of Green Energy

In order to promote energy conservation, emissions reduction and green development, the Company upgraded the technology of related heating and annealing equipment for manufacturing copper plates and strips and replaced part of the large electric heating equipment of huge energy consumption with natural gas heating equipment so as to reduce unit energy consumption.

In 2016, the Company introduced a solar energy utilization plan by making full use of the factory building roof to generate roof solar power in cooperation with Huadian Group. This project is predicted to generate 10 million kilowatt hour electricity every year, which will reduce the demand for external power and the greenhouse gas emissions by one thousand tons and will bring good social benefits and good economic benefit to the Company.

The Company has been pushing paperless office action and has built a network office system across the whole Company. The Company is committed to the construction project of integration of informatization and industrialization.

2. Water Resource Utilization

The Company's production water mainly consists of cooling water and cleaning water. In order to make full use of water resources and reduce emissions, the Company built a unified water treatment center to realize cyclic utilization of water.

3. Waste Heat Utilization

The Company provides all the heat energy required at the workers' bathroom by recycling waste heat generated from melting and heating equipment, etc.

4. Cleaner Production

The Company has formed a long-term strategic cooperation with a consultancy institution to jointly and persistently promote and implement "Green Production & Cleaner Production". Consequently, its subsidiaries engaging in the business of copper plates and strips were recognised as exemplary enterprise of cleaner production by the local government.

2. Circular Economy and Resource Regeneration

The Company has been focusing on circular economy and resource regeneration. Each subsidiary engaging in the business of copper plates and strips has set up the recycling workshop specialized in extraction and separation in physical methods of metallic oxide generated in the production process or processed through dust collection, which is then reused in the production. It also reformed the production process to increase the purchase and use of the scrap metal in society so that the resources can be recycled. The Company takes a leading role in the industry in terms of scrap metal utilization. In 2016, scrap metal purchased by the Company totaled more than 60,000 tons.

3. Waste Disposal

Considering that zinc oxide and other kinds of dust will be generated in the process of casting and hot rolling, the Company has fully installed dust collecting and gathering devices, which effectively reduces the emissions of particles and dust in the process of production. The Company implemented unified management of recycled materials, all the waste, except for the usable waste which will be processed by the Company itself, will be disposed uniformly by those enterprises with necessary qualifications. Moreover, for purpose of historical trace, Waste Disposal and Transfer Forms needs to be filled in and relevant accounts will be established. The Company has enacted the Waste Disposal Management System to govern the above work through the whole Company.

III. SAFETY OBLIGATION

1. Safety Management System

(1) Construction of Safety Management System

The Company actively fulfills the requirements of the Law on Production Safety and there is no major violation during the reporting period. "People Orientation and Safety First" is the concept of production safety that the Company has been advocating. For the purpose of promoting and implementing safe production among all employees, the special offices of safety management were set up in its subsidiaries engaging in the business of copper plates and strips and each business division was equipped with supervisors of safe production. Moreover, a system of top-down three-level production safety administration by subsidiary, business division and team was built, and it is the team that should be responsible for the specific implementation by individual employees. Because of the excellent performance on production safety management, it was identified by the local government as the leader of cooperative group of enterprise production safety within hardware industrial park and will lead and guide the enterprises within the park in the joint promotion of production safety work. In Zhejiang G20 production safety month activity held in August to September 2016, it gained consistent high praises from provincial and local government and becomes a model unit of local enterprises.

(2) *Assessment of Production Safety and Responsibility*

Under the system of three-level administration of production safety, agreements of production safety liability were concluded between subsidiary and business division, business division and team as well as team and staff. The Company formulated 2016 Assessment Method of Safety Production to specify the assessment indicators for major events, set the goal of zero casualties and zero major fire incidents and the principle of supervision and management, i.e. "the supervisor assumes responsibility". In the event of occurrence of heavy casualties and major fire incidents, the head of the Company will be held responsible and severe punishments imposed, such as downgrade, demotion, penalty and even dismissal depending on the degree of managerial responsibility so as to set up the basic idea of "Safe Production, Duty of Everyone". The assessment indicator of zero deaths and zero fire incidents was achieved in 2016.

(3) *Production Safety Training*

Comprehensive training system of safety production is an effective guarantee of carrying out production safety. Therefore, the Company established a comprehensive education and training system of production safety and held campaigns according to it.

1. New recruits will be provided with 3-level safety education in the first place, which has been held 50 times this year involving a total of 331 people.

2. Third-party professional safety training institutions were entrusted to provide safety administrator training to the heads of departments of the Company involving a total of 103 people.

3. Safety training will be provided to the personnel operating special equipment on a monthly basis.

4. Production education and training will be provided to all staff on a regular basis and 3,415 employees had been trained by the end of 2016.

5. Contest of production safety knowledge will be held once a year.

2. Emergency Management System

(1) *Emergency Response Mechanism*

Emergency management and response is the key to production safety, hence, the Company established and formulated the Comprehensive Contingency Plan of Production Safety Accident and Special Contingency Plan and Scene Disposal Plan.

(2) *Emergency Training and Drills*

Emergency training and drills are the most effective measures of effectively promoting and strengthening emergency disposal ability, technology and knowledge. In 2016, the Company conducted two drills. First, volunteer firefighters conducted emergency fire drills on LNG gas supply station under its organization; second, it conducted joint emergency fire drills with local firefighters. A third party was also entrusted by it last year to provide training on emergency treatment of hazardous chemicals involving a total of 120 people.

(3) Special Campaigns of Production Safety

Establishment of standardized enterprise of safe production: Shengtai Group was awarded as "Ningbo Third-grade Standardized Enterprise of Safe Production" again in 2016.

3. Health

The Company strictly abides by Zhejiang Provincial Regulations on the Prevention and Control of Occupational Diseases. It arranges health checks on all staff every two years, occupational health checks on the staff in special posts once a year and comprehensive physical examination of newly recruited employees. Only those who pass the checks and examinations may assume the posts. The Company provides comprehensive protection in connection with posts exposed to high temperature, strong light and dust to guarantee the employees' health and safety.

IV. EMPLOYEE OBLIGATION

The Company fully complies with China's Labor Law, Law on the Protection of Women's Rights and Interests, Law on the Protection of Minors, Trade Union Act and Labor Contract Law. Since its establishment, the Company has never hired child labor, no events of discrimination against women or staff of different regional culture has ever happened and there was no complaint or judgment against the Company due to its violation of the relevant laws and regulations in 2016. The Company prepared a complete Employee Handbook, which covers the various rights of employees, such as compensation, social security, employee benefits, vacation, overtime and performance, so as to safeguard the rights and interests of employees. The Company has always been praised by the public in terms of labor relations, won the honor of Enterprise with Harmonious Labor Relations in Zhejiang province. Besides, the Union of the Company was awarded the honor of model union by local government (of Hangzhou Bay New Zone).

1. Talent Cultivation

In order to improve the staff's self-accomplishment and career development plans, the Company opened Xingye Junior College with three-year length of schooling in cooperation with Jiangxi University of Science and Technology and launched "Young Cadre Training Class" in cooperation with Taiwan's Jianfeng, which not only improved employees' quality but also reserved talents for the development of the Company.

In addition, cooperating with the local government, the Company engaged professional institutions to provide employees with skills training and training related to obtaining special equipment operation qualifications so as to consolidate and develop the "blue-collar" staff team.

2. Employee Relations

The happiness of employees is a goal that the Company has always been striving for and the business philosophy that the Company has been adhering to, centering on which the Company conducted many related work.

1. Construction of Happy Home

In order to help employees settle down, the Company implemented a series of preferential measures to enable employees to afford and possess a house. The Company introduced the subsidy program of funding house purchase, interest-free loan programs and other measures.

2. Cultural Summer Camp

In order to deal with employees' consideration of family, the Company specifically engaged some excellent teachers from schools to provide extra tutoring to the children of employees and also arrange group activities for them during the summer vacation, so that their parents are able to concentrate on work and a happy and safe summer vacation time can be provided to the children.

3. Incentive Arrangements for Advanced Employees

The Company arranged recuperation and tourism activities for 2 batches of advanced workers in 2016; the Company also arranged a visit to the production base by the parents of advanced employees during the Mid-Autumn festival to let them share and feel the development of the enterprise and the growth of the family.

4. Establishment of Mutual Funds

To vigorously carry forward the spirit of helping and loving each other and form a long-term mechanism of rescuing the endangered and succoring the poor, as well as mutual aid and love, an Employee Mutual Fund was established under the organization of the Company, which was funded mainly by Company and secondly by employees donations and will provide financial aid to employees with difficulties so as to make the employees feel the warmth of the collective.

5. Rich Leisure Life

To enrich the leisure life of employees residing in production base, the Company built a specially lit basketball field, gym and library reading room, and will hold table tennis, basketball, billiards and tug of war matches every year for the purpose of enhancing cohesion and sense of honor of employees.

V. CUSTOMER OBLIGATION

1. Customer Relationship

"Customer Orientation & Customer Sensation" is the operation philosophy to which the Company always adheres. The Company set up the three-level system of return visit by marketing personnel, service personnel and management, so that it is able to understand customer needs, master the development trend of downstream industry, continuously improve product quality and service quality and develop products that meet the needs of customers by regularly visiting customers. In addition, in order to let customers further understand the Company's corporate culture and development direction, the Company established the system of inviting customers to visit the Company at regular intervals. Through these activities, it realized "Private Customization and Directional Development" and developed personalized products for customers, for example, directional development of tin-bronze copper plates and strips, which saved customers' cost, strengthened the mutual viscosity and well fulfilled the sharing economic philosophy of "Customer Sensation, Win-win Cooperation and Common Development".

2. Customer Complaint Handling and Improvement

The Company has always attached great importance to customer's complaints and the handling and improvement of complaints. It formulated Procedures for Customer Feedback Control, set up a special line of telephone complaints and clarified the responsibilities and working process of relevant departments and related forms that need to be filled in. According to the aforesaid document, the related departments must take urgent countermeasures and give an initial response within 24 hours, determine the attribution of liability within 48 hours after the occurrence of exceptional situations. The responsible unit should put forward corrective measures and reply to a customer within 3 working days and provide supporting information and improvement to the customer within 15 working days, etc.

3. Sunshine Procurement

(1) Procurement Bidding

"Fairness, Transparency and Integrity" forms the foundation of the sunshine procurement carried out by the Company, the bidding method employed in the process of procurement serves as the means of solidifying and supporting the foundation. The Company formulated the System of Bidding Management, which has achieved significant results.

(2) Construction of Clean and Honest Government and Code of Ethics

The Company adopted a Gift Management System to specially strengthen the integrity of procurement, control the behavior of giving and receiving gifts and promote the moral consciousness and professional ethics of the relevant personnel. The construction of sunshine procurement project strengthened the self-discipline and team spirit of employees, established a good reputation of the Company and greatly saved the Company's direct purchasing cost.

(3) Supplier Management

Qualification management: the Company requires that suppliers possess certain qualifications and some products conform to ISO9001 quality certification, ISO14001 environment certification and other related certification and be subject to yearly audit.

Integrity management: on the one hand, the Company requires strict self-discipline of employees, on the other hand, it also requires suppliers' strict adherence to "good faith" principle so as to completely eradicate unethical and/or illegal activities. Integrity clauses are contained in the bidding documents and daily purchase contracts to govern this kind of behavior.

4. Social Public Welfare

The Company actively encourages employees' participation in public-welfare activities and repaying society. It always supports education and research and established "Xingye Scholarship" in a domestic university so as to encourage excellent students.

VI. CONCLUSION

"Happiness of Employees, Sensation of Customers, Satisfaction of Shareholders and Recognition of Society" is the operation philosophy established by Company. Satisfaction of Shareholders and Reassurance of Investors are the core principles of corporate governance. The Board has always been committed to maintaining communication with shareholders and investors and to safeguard the rights and interests of shareholders and investors.

Appendix I Reference List of ESG General Disclosure

ESG Index	Key Performance	Description	Reference No.
Environment			
A1	Emissions	Policies on waste and greenhouse gas emissions, pollution discharge to water and land, and generation of hazardous and non-hazardous waste; and Compliance with relevant laws and regulations having significant influence on the issuer	II
A2	Resource Use	Policies on effective use of resources (including energy, water and other raw materials).	II
A3	Environment and Natural Resources	Policies on reducing the issuer's significant impacts on environment and natural resources.	II
Society			
B1	Employment	Policies on compensation and dismissal, hiring and promotion, working hours, holidays, equal opportunity, diversity, anti-discrimination and other benefits and welfare; and Compliance with relevant laws and regulations having significant influence on the issuer	IV
B2	Health and Safety	Policies on providing a safe working environment and preventing employees from occupational hazards; and Compliance with relevant laws and regulations having significant influence on the issuer.	III
B3	Development and Training	Policies on Improving knowledge and skills necessary for employees' performance of job duties. Description of training.	IV

ESG Index	Key Performance	Description	Reference No.
B4	Labor Standards	Policies on prevention of child labor or forced labor; and Compliance with relevant laws and regulations.	IV
B5	Supply Chain Management	Policies on Environmental and Social Risk of Supply Chain Management.	V
B6	Product Responsibility	Policies on health and safety, advertisements, labels, privacy and remedies of the products and services provided; and Compliance with relevant laws and regulations.	V
B7	Anti-corruption	Policies on prevention of bribery, extortion, fraud and money laundering; and Compliance with relevant laws and regulations.	V
B8	Community Investment	Policies on understanding the needs of host community through community participation and ensuring consideration of the interests of the community when conducting its business activities.	V

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company is an investment holding company with its principal subsidiaries engaged in manufacturing and sales of high precision copper plates and strips, trading of raw materials, provision of processing services, the management of a portfolio of investment and development, operation and distribution of internet and mobile gaming products.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

BUSINESS REVIEW

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Chairman's Statement" and "Management Discussion & Analysis" on page 4 and pages 5 to 11 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in the section of "Management Discussion & Analysis" on page 10 of this annual report. Environmental policies and performance, compliance with the relevant laws, rules and regulations as well as relationships with employees, customers and suppliers are provided in this report and "Management Discussion & Analysis" from pages 10 to 11 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the accompanying financial statements on page 59.

The Board does not recommend the payment of any dividend for the year ended 31 December 2016.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend and vote at forthcoming annual general meeting, the register of members of the Company will be closed from 23 May 2017 to 26 May 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 22 May 2017.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 139 to page 140.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group as at 31 December 2016 are set out in note 23 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in the share capital and reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), Mobilefun Limited (the "**Vendor**") and Mr. Ren Hao, Mr. Tong Xin and Mr. Yang Jiong as the guarantors, entered into a sale and purchase agreement dated 21 June 2016 (the "**Sale and Purchase Agreement**"), pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Funnytime Limited at the initial consideration of HKD186,000,000.20 ("**Consideration**") subject to certain price adjustment mechanism. The Consideration shall be satisfied (i) as to HKD116,000,000 in cash; and (ii) as to HKD70,000,000.20 by issuance of 77,777,778 ordinary shares of HKD0.10 each ("**Consideration Shares**") to be issued and allotted by the Company pursuant to the general mandate. Pursuant to a letter dated 4 August 2016 from The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") addressed to the Company, the Stock Exchange granted, on conditional basis, the approval for the listing of and permission to deal in the Consideration Shares. The audited Net Income (as defined in the Sale and Purchase Agreement) of Funnytime Limited for the financial year ended 31 December 2016 exceeds RMB18,000,000 (after adjustment of VIE taxation of RMB1,830,000), accordingly Mobilefun Limited is entitled to 19,996,667 Consideration Shares pursuant to the Sale and Purchase Agreement. 19,996,667 Consideration Shares in the Company will be issued in April 2017.

KEY RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

The Group has always paid great attention to and maintained a good working relationship with its upstream raw material suppliers, and has been providing quality professional and systemic customer services for its downstream customers. The aforementioned suppliers and customers are good working partners creating value for the Group.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, the aggregate revenue from sales of goods attributable to the five largest customers and the largest customer of the Group accounted for approximately 22.0% and 13.9% of the Group's aggregate revenue from sales of goods, while the aggregate purchases attributable to five largest suppliers and the largest supplier of the Group accounted for approximately 49.8% and 17.5% of the Group's aggregate purchases.

At no time during the year have the Directors, their close associates or any Shareholder (whom to the knowledge of the Directors owns more than 5% of the Company's total issued shares) had any interests in such major customers or suppliers.

SHARE AWARD SCHEME

As announced by the Company on 18 April 2016, the Board resolved to adopt a share award scheme (the "**Share Award Scheme**") in which Employees (other than Excluded Employees) may be selected by the Board to participate. The purpose of the Share Award Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Share Award Scheme during its term is limited to 20% of the total issued shares of the Company as at the Adoption Date of 18 April 2016. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 5% of the total issued shares of the Company as at the Adoption Date. Pursuant to the Share Award Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Share Award Scheme before vesting. The Share Award Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

As announced by the Company on 5 May 2016, the maximum number of new shares to be issued by the Company in respect of any financial year of the Company for satisfying the Awarded Shares granted under the Share Award Scheme will be limited to 2% (i.e. 16,222,319 shares) of the total issued shares of the Company as at Adoption Date. The maximum number of new shares to be issued by the Company in respect of any 12-month period for satisfying the Awarded Shares granted to any one Selected Employee under the Share Award Scheme will not exceed 1% (i.e. 8,111,159 shares) of the total issued shares of the Company as at the Adoption Date.

Since the Adoption Date and up to 31 December 2016, no new shares had been subscribed by the Trustee and a total of 4,021,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and no shares had been awarded to Selected Employee(s) under the Share Award Scheme. Accordingly, as at 31 December 2016, there were 4,021,000 shares held in trust under the Share Award Scheme.

Unless otherwise defined in this section, the capitalized terms used in this section shall have the same meanings as those defined in the announcements made by the Company on 18 April 2016 and 5 May 2016 relating to the Share Award Scheme.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 1 December 2007 (the "**2007 Share Option Scheme**") which was terminated by shareholders at the extraordinary general meeting of the Company held on 27 May 2016. No further options should thereafter be granted under the 2007 Share Option Scheme. Details of 2007 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2015. During the year under review, no options were granted, exercised, lapsed, cancelled or outstanding under the 2007 Share Option Scheme.

A new share option scheme had been adopted by shareholders at the extraordinary general meeting of the Company held on 27 May 2016 (the "**2016 Share Option Scheme**").

The principal terms of the 2016 Share Option Scheme are as follows:

The purpose of the 2016 Share Option Scheme is to provide incentive or reward to eligible persons (as defined hereinafter) for their contribution to, and continuing efforts to promote the interests of, our Company and to enable the Group to recruit and retain high-calibre employees.

Eligible person(s) include(s) (i) any directors (whether executive or non-executive, including any independent non-executive director) or employee (whether full time or part time) of any member of the Group; (ii) consultant, adviser, supplier or customer of any member of the Group; and (iii) any other group of classes of participants which the Board may, from time to time in its absolute discretion, consider appropriate on the basis of such participants' contribution or potential contribution to the development, growth or benefit of the Group or any member of it.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the 2016 Share Option Scheme and any other share option scheme shall not in aggregate exceed 10% of the total issued shares of the Company, which is equivalent to 81,111,595 shares as at the date of adoption of 2016 Share Option Scheme.

As at the date of this report, a total of 81,111,595 shares of the Company (representing 10% of the existing issued share of the Company) may be issued upon exercise of all options which may be granted under the 2016 Share Option Scheme.

There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of grant of any particular option. The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised more than 10 years from the date of grant. A consideration of HK$1.00 is payable within 28 days on acceptance of an offer of the grant of options.

The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the 2016 Share Option Scheme to an eligible persons (other than those independent non-executive directors and a director who is a substantial shareholder) in any 12-month period up to the date of grant shall not exceed 1% of the shares of the Company in issue as at the date of grant. Any further grant of options in excess of this limit shall be subject to the approval of Shareholders at a general meeting. The total number of shares of the Company issued and which may fall to be issued upon exercise of the options granted under the 2016 Share Option Scheme to an eligible persons who is a director (being a substantial Shareholder) or an independent non-executive director, or any of their respective associates, in any 12-month period up to the date of grant shall not (i) exceed 0.1% of the shares of the Company in issue as at the date of grant; and (ii) having an aggregate value, based on the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on each of the relevant date(s) on which the grant(s) of such options is made to such eligible person, in excess of HK$5 million.

The subscription price of a share of the Company in respect of any particular option granted under the 2016 Share Option Scheme shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

Subject to early termination by the Company at general meeting or by the Board of Directors, the 2016 Share Option Scheme shall be valid and effective for a period of ten years from the date of adoption, i.e. 27 May 2016.

No options had been granted, exercised, lapsed, cancelled or outstanding under the 2016 Share Option Scheme during the year.

DIRECTORS

The Directors who had held office during the year and up to the date of this report were:

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua
Mr. REN Hao *(Appointed on 18 October 2016)*
Mr. ZHU Wenjun *(Appointed on 18 October 2016)*
Mr. WANG Jianli *(Resigned on 18 October 2016)*
Mr. MA Wanjun *(Resigned on 18 October 2016)*

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong *(Elected on 27 May 2016)*
Mr. MAO Xuechang *(Retired on 27 May 2016)*

Pursuant to Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. HU Changyuan, Mr. HU Minglie and Mr. CHEN Jianhua shall retire from their office by rotation at the forthcoming annual general meeting and, being eligible, offered themselves for re-election. Pursuant to Article 86(3) of the Company's Articles of Association, Mr. REN Hao and Mr. ZHU Wenjun were appointed Directors by the Board on 18 October 2016, who shall hold office only until the next annual general meeting, and being eligible, offers themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence pursuant to Rule 3.13 of the Listing Rules, and considers that each of the independent non-executive Directors is independent to the Company.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors had entered into a service contract with the Company with effect from their respective date of appointment until terminated in accordance with the terms of the service contracts. Under the service contracts, either party may terminate such contract by giving to the other not less than three months' prior notice in writing.

Each of non-executive Directors of the Company (including independent non-executive Directors) had entered into an appointment letter with the Company for a term of 3 years until terminated by either the Company or non-executive Director (including independent non-executive Director) by giving not less than two months prior notice in writing.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation) save as disclosed herein.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), which have been 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 the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company, and the Stock Exchange pursuant to the Model Code were as follows:

Interest in Long Position in Shares of HK$0.10 each and Underlying Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding *(Note 1)*
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 *(Note 2)*	–	32.70%
HU Minglie	Beneficial owner/personal Interest	800,000	–	0.10%
REN Hao	Interest of a controlled corporation/ corporate interest	–	77,777,778 *(Note 3)*	9.59%
CHEN Jianhua	Beneficial owner/personal Interest	1,480,000	–	0.18%
CHAI Chaoming	Beneficial owner/personal Interest	134,000	–	0.02%
LU Hong	Beneficial owner/personal Interest	200,000	–	0.02%

Notes:

1. The percentages are calculated based on the total issued shares of 811,115,950 as at 31 December 2016.
2. These 265,200,000 shares were held by Luckie Strike Limited and Come Fortune International Limited which was wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust which was founded by Mr. HU Changyuan. Mr. HU was deemed to be interested in these shares by virtue of the SFO.
3. These 77,777,778 underlying shares are held by Mobilefun Limited ("**Mobilefun**") which in turn is 42% controlled by Mr. Ren Hao. Accordingly, Mr. Ren Hao is deemed to have interest in 77,777,778 underlying shares of the Company held by Mobilefun under the SFO. Details of these underlying shares held by Mobilefun are set out in the section hereinafter headed "Substantial Shareholders" in this report.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than disclosed in the section of "Share Award Scheme" and "Share Option Scheme" above, at no time during the year was the Company, its parent company (if any), or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons or corporations (other than the directors' interests disclosed in the section headed "**Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debenture**") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	**Capacity/Nature of Interest**	**Number of Shares**	**Number of Underlying Shares**	**Approximate percentage of shareholding** *(Note 1)*
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	13.56%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	19.13%
Dynamic Empire Holdings Limited *(Note 2)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.70%
Zedra Trust Company (Singapore) Limited *(Note 2)*	Trustee (other than a bare trustee)/Other Interest	265,200,000 (L)	–	32.70%
Zedra Malta Limited *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.70%
Zedra Holding SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.70%
Zedra SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.70%
Yu Yuesu *(Note 4)*	Interest of spouse/Family interest	265,200,000 (L)	–	32.70%
Mobilefun Limited *(Note 5)*	Beneficial owner/Beneficial interest	–	77,777,778 (L)	9.59%

The letter "S" denotes a short position in the share

The letter "L" denotes a long position in the share

Notes:

1. The percentages are calculated based on the total issued shares of 811,115,950 as at 31 December 2016.

2. The shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust, the trustee of which was Zedra Trust Company (Singapore) Limited (formerly known as Barclays Wealth Trustees (Singapore) Limited). Dynamic Empire Holdings Limited was deemed to be interested in all the shares in which Luckie Strike Limited and Come Fortune International Limited is interested by virtue of the SFO. Zedra Trust Company (Singapore) Limited was deemed to be interested in all the shares in which Dynamic Empire Holdings Limited was interested by virtue of the SFO. The shares registered in the name of Luckie Strike Limited and Come Fortune International Limited were also disclosed as the interest of Mr. HU Changyuan in the section headed "Directors and chief executive's interests in shares, underlying shares and debentures" above.

3. Zedra SA through its 100% controlled corporations (including Zedra Holding SA, and Zedra Malta Limited), is interested in 265,200,000 shares which were held by Zedra Trust Company (Singapore) Limited (formerly known as Barclays Wealth Trustees (Singapore) Limited) as trustee. Zedra Trust Company (Singapore) Limited was wholly owned by Zedra SA. Each of Zedra SA, Zedra Holding SA and Zedra Malta Limited was deemed to be interested in all the shares in which Zedra Trust Company (Singapore) Limited was interested by virtue of the SFO.

4. Ms. Yu Yuesu is deemed to be interested in these shares under the SFO by virtue of being the spouse of Mr. HU Changyuan.

5. Pursuant to the sale and purchase agreement dated 21 June 2016 entered into between a subsidiary of the Company, Mobilefun Limited ("**Mobilefun**"), Mr. Ren Hao, an executive Director, and others in relation to the acquisition of entire share capital in Funnytime Limited (the "**Acquisition**") involving the issue of 77,777,778 consideration shares. The Acquisition had been completed on 5 August 2016 and the 77,777,778 potential shares which will be issuable to Mobilefun in accordance with the schedule set out in the announcement of the Company dated 21 June 2016. Details of the Acquisition and the said consideration shares are set out in the announcements of the Company dated 21 June 2016 and 5 August 2016. These underlying shares held by Mobilefun were also disclosed as the interest of Mr. Ren Hao in the section headed "Directors and chief executive's interests in shares, underlying shares and debentures" above.

Save as disclosed herein, as at 31 December 2016, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company, who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to "Share Award Scheme" and "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to relevant laws, every Director shall be indemnified out of the assets of the Company against all losses and damages, etc. which he/she may sustain or incur in or about the execution of his/her duties in respect of his/her office or otherwise in relation thereto.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors and directors of subsidiaries of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance in relation to the Company's business to which the Company, any of its subsidiaries, its holding company or its fellow subsidiaries was a party and in which a Director or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors were interested in any business apart from the Group's businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group during the year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Continuing Connected Transactions

On 21 June 2016, Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company ("**Xingye**"), Mobilefun Limited (the "**Vendor**") and Mr. REN Hao, Mr. TONG Xin and Mr. YANG Jiong as the guarantors, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") in relation to acquisition of the entire issued share capital of Funnytime Limited by Xingye which constituted a disclosable transaction of the Company (the "**Acquisition**").

Funnytime Limited is an investment holding company which holds the entire issued share capital of Soul Dargon Limited ("**Soul Dargon**"), which in turn holds the entire equity interest of Hefei Yueyou Network Technology Co., Ltd. (合肥悅遊網絡科技有限公司) ("**Hefei Yueyou**") which through varies structured contracts (the "**Structured Contracts**"), has effective control over Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悅網絡科技有限公司) ("**Hefei OPCO**"), and enjoys the economic interests and benefits of the Hefei OPCO. Please refer to the paragraph headed "Structured Contracts" below for the detail of the Structured Contracts.

Immediately after the completion of the Acquisition on 5 August 2016, each of Funnytime Limited, Soul Dargon and Hefei Yueyou has become a wholly-owned subsidiary of the Group. Mr. REN, being a party to the Structured Contracts, was one of the shareholders of the Vendor and Hefei OPCO and an Independent Third Party when the Sale and Purchase Agreement was entered into. He was appointed as an executive Director on 18 October 2016 and has therefore become a connected person of the Company.

Whilst the terms of the Structured Contracts remain unchanged, the continuing transactions thereunder have therefore become continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.60(1) of the Listing Rules, the Company is required to comply with the annual review and disclosure requirements under Chapter 14A of the Listing Rules in respect of the Structured Contracts. In the event that the Structured Contracts are varied or renewed, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

The continuing connected transactions mentioned above have been reviewed by the independent non-executive Directors who have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was 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 Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Company in this annual report in accordance with Rule 14A.56 of the Listing as below:

(i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Other than the continuing connected transactions disclosed as above, details of the related party transactions of the Group are set out in note 31 to the financial statements. Those related party transactions constituted exempted connected transactions under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 4,021,000 shares of the Company at a total consideration of HK$3,711,641 (equivalent to RMB3,256,000) during the year.

STRUCTURED CONTRACTS

On 1 July 2016, Hefei Yueyou Network Technology Co., Ltd. (合肥悅遊網絡科技有限公司) ("**Hefei Yueyou**"), Mr. REN Hao and Mr. LI Zhe (an Independent Third Party) (collectively the "**VIE Equity Owners**") entered into certain structured contracts, namely (i) an exclusive management and consulting agreement (獨家管理諮詢協議), (ii) shareholders' voting trust agreement (股東表決權委託協議), (iii) share purchase option agreement (股權購買權協議), (iv) equity pledge agreement (股權質押協議) and (v) power of attorney ancillary to the foregoing (授權委託書), (vi) VIE equity owners' commitment letter (承諾函) and (vii) spouse consent letter (配偶同意函) (collectively the "**Structured Contracts**") by the VIE Equity Owners and spouses thereof to enable the financial results, the entire economic benefits and the risks of the businesses of the Hefei Zhangyue Network Technology Co., Ltd. (合肥掌悅網絡科技有限公司) ("**Hefei OPCO**") to flow into Hefei Yueyou and to enable Hefei Yueyou to gain management control over the operation of Hefei OPCO.

Hefei Yueyou and Shenzhen Zhangyue Network Technology Co., Ltd. (深圳掌悅網絡科技有限公司) (the "**OPCO Subsidiary**", collectively the "**PRC Operating Entities**"), a wholly-owned subsidiary of the Hefei OPCO, are principally engaged in the development and operation of internet and mobile gaming products. The registered owners of Hefei Yueyou are Mr. LI Zhe and Mr. REN Hao who beneficially own as to 99% and 1% of the equity interest of Hefei Yueyou respectively. Hefei Yueyou is an indirectly wholly-owned subsidiary of Funnytime Limited which had been acquired by Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company, following the completion of the acquisition of Funnytime Limited on 5 August 2016. Please refer to the paragraph headed "Related Party Transactions and Connected Transactions – Continuing Connected Transactions" above for detail of the acquisition.

Pursuant to the Structured Contracts, Hefei Yueyou shall, among others, (i) provide Hefei OPCO with exclusive management consultancy services, including among others, software development services, information technology consulting, business information consulting, corporate management information consulting and investment information consulting which in turns enable Hefei Yueyou to exercise effective financial and operational control over the PRC Operating Entities and receive substantially all of the economic interest returns generated by the PRC Operating Entities in consideration for the business support, technical and consulting services provided by Hefei Yueyou, at Hefei Yueyou's discretion; (ii) act as agents of the VIE Equity Owners to attend the shareholders' meetings of Hefei OPCO which enable Hefei Yueyou to exercise equity holders' voting rights of the PRC Operating Entities; (iii) obtain an irrevocable and exclusive right with an initial period of 10 years to purchase the entire equity interest in the PRC Operating Entities from the respective equity holders. This right automatically renews upon expiry until Hefei Yueyou specifies a renewal term; and (iv) obtain a pledge over the entire equity interest of the PRC Operating Entities from their respective equity holders as collateral security for all of the PRC Operating Entities' payments due to Hefei Yueyou and to secure performance of PRC Operating Entities' obligations under the Structured Contracts.

As a result of the Structured Contracts, the financial results of Funnytime Limited, Soul Dargon Limited, Hefei Yueyou and the PRC Operating Entities (collectively the "**Funnytime Group**") were consolidated by the Company for the period from the acquisition date to 31 December 2016. The revenue, net profit and total assets contributed by the Funnytime Group to the Group amounted to RMB16.6 million, RMB6.2 million and RMB26.5 million for the period from the acquisition date to 31 December 2016.

Reasons for using the Structured Contracts

The Hefei OPCO and OPCO Subsidiary are principally engaged in the development and operation of internet and mobile gaming products, among which the operation of internet and mobile games is considered to be engaged in the provision of value-added telecommunications services and the internet cultural business, a restricted business and prohibited business respectively for foreign investors pursuant to the Guidance Catalogue of Industries for Foreign Investment (2015 Revision)《外商投資產業指導目錄（2015年修訂）》.

Therefore, to comply with the applicable PRC laws and regulations, Hefei Yueyou, Hefei OPCO and each of the VIE Equity Owners have entered into the Structured Contracts to enable the financial results, the entire economic benefits and the risks of the businesses of the Hefei OPCO to flow into Hefei Yueyou and to enable Hefei Yueyou to gain management control over the operation of Hefei OPCO and OPCO Subsidiary.

The Structured Contracts allow the Group to effectively control the Funnytime Group and therefore recognise and receive substantially all of the economic benefits of the business and the operations of the Funnytime Group.

The risks associated with the arrangements and actions taken by the Company to mitigate the risks

Zhonglun Law Firm, the PRC legal adviser to the Company, (the "**PRC Legal Adviser**"), has issued a legal opinion confirming that each of the Structured Contracts is legally binding and enforceable under the applicable laws of the PRC up to the date of this report. The Company has engaged the PRC Legal Adviser to review the Structured Contracts on an annual or otherwise on a need basis to mitigate the risk of any non-compliance of PRC laws and regulations.

However, there can be no assurance that the PRC government authority would deem these contractual arrangements and/or the Structured Contracts to be in compliance with the licensing, registration or other regulatory requirements, or that the legal requirements or policies that may be adopted in the future (in particular those concerning foreign investment and/or merger and acquisition by foreign investors) would not affect the Structured Contracts and such contractual arrangements. Also, the enforceability may be affected by any applicable bankruptcy, insolvency, fraudulent transfer, reorganisation, moratorium or similar laws affecting creditors' rights generally and possible judicial or administrative actions or any PRC laws and regulations affecting creditors' rights.

Further to the above, in order the mitigate the risks, the Company had also adopted a series of internal measures including, among others, our Chief Executive Officer had conducted regular site visits to Hefei OPCO and conducted personnel interviews and submitted reports to the Board and our chief financial officer had collected monthly management accounts, bank statements and cash balances and major operational data of Hefei OPCO for review, along with other internal control measures as detailed in the announcement of the Company dated 21 June 2016 in relation to the subject matter (the "**Acquisition Announcement**").

Please refer to the Acquisition Announcement for further detail of the terms and conditions of the Structured Contracts, the risks associated with the Structured Contracts and the internal measures of the Company.

For the year ended 31 December 2016, there was no material change in the Structured Contracts. As of the date of this annual report, there is no unwinding of any of the Structured Contracts.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders of the Company.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the year ended 31 December 2016. Details of the corporate governance practices of the Company are set out in the Corporate Governance Report in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of its Directors, as at the date of this report, the Company has maintained a public float of not less than 25% of the issue share capital of the Company as required under the Listing Rules.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises two independent non-executive Directors, namely, Mr. CHAI Chaoming and Ms. LU Hong and one non-executive Director, namely, Mr. DAI Jianchun. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2016 and has also discussed audit, risk management, internal control and financial reporting matters including accounting practices and principles adopted by the Group.

AUDITOR

SHINEWING (HK) CPA Limited ("**SHINEWING**") resigned as auditor of the Company with effect from 9 June 2015. KPMG was appointed by the Board as new auditor of the Company on 10 June 2015 and acted as auditor of the Company for the years ended 31 December 2015 and 2016.

The consolidated financial statements for the year ended 31 December 2016 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
HU Minglie
Chief Executive Officer and Executive Director

Hong Kong, 24 March 2017

Biographical Details of the Directors

EXECUTIVE DIRECTORS

Mr. HU Changyuan, aged 68, is an executive Director and Chairman of the Board of the Company. Mr. HU was recognized as a senior economist by the Municipal Personnel Bureau of Zhejiang Province (浙江省人事廳) in 1995. He is the founder of the Group. Mr. HU has more than 28 years of experience in the copper plates and strips industry. He was a committee member of the first council of the China Nonferrous Metals Industry Association (中國有色金屬工業協會) (the "**CNMFIA**"), a member of the People's Political and Consultation Commission of Cixi City (慈溪市政協) and was a representative to the People's Congress of Ningbo City (寧波市人大). Mr. HU was awarded the title of "Labor Model of Ningbo City" (寧波市勞動模範) by Ningbo People's Government (寧波市人民政府) in 1991. In 2005, Mr. HU served as a vice president of the Zhejiang Charity Federation (浙江省慈善總會). In 2005, Mr. HU was awarded Zhejiang Charitable Individual (浙江慈善個人獎) by the People's Government of Zhejiang. He was also awarded the title of outstanding Chinese Entrepreneur (中國優秀企業家) by the Chinese International Hua Shang Association (中國國際華商會) and International Hua Shang Magazine (國際《華商》雜誌社) in 2006. In 2007, he was awarded "Outstanding Contributions to Chinese Charities" (中華慈善事業突出貢獻獎) and the title of "China's Charity Figure" (中華慈善人物) by China Charity Federation (中華慈善總會). Mr. HU is the father of Mr. HU Minglie and a director of Luckie Strike Limited and Come Fortune International Limited, substantial shareholders within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. HU Minglie, aged 35, is an executive Director of the Company and Chief Executive Officer of the Group. He graduated from the University of Arizona with a master degree in Optical Science Engineering, and has received a MBA degree from Anderson Management School of UCLA. Mr. HU is the founding partner and chairman of Lighthouse Capital Management LLC (the "**Lighthouse Capital**"), an equity investment fund management company established in Mainland China. At the time when he established Lighthouse Capital, he had been the partner of Tianjin Raystone Taihe Fund Management LLP, another equity investment fund management company established in Mainland China, for more than four years. During his service in Lighthouse Capital, he was responsible for the structuring and management of two funds with assets under management of over RMB300 million. The funds invested in more than 20 growth oriented projects in China and overseas, which were mainly medical, equipment and mobile internet projects. Mr. HU has also actively participated in the charity activities in Mainland China and Hong Kong, and is the director of Cixi Xingye Xi Yang Hong Charitable Foundation and Si Ming Care for Aged and Children Charitable Foundation Limited. Mr. HU is the son of Mr. HU Changyuan.

Mr. CHEN Jianhua, aged 49, is an executive Director of the Company. He graduated from an executive management program in business administration organized by Shanghai Fudan University and Hong Kong University Continuing Education Institute (上海港大—復旦專業繼續教育學院) in 2004 and has been working for the Group since 1998. Mr. CHEN is responsible for supervisory work for the Group. Mr. CHEN has more than 26 years of experience in the copper plates and strips industry. He was awarded the title of "Outstanding Entrepreneur of Cixi City" (慈溪市突出貢獻企業家) by the People's Government of Cixi in 2005 and 2006. In 2005, he was awarded the title of "Outstanding Entrepreneur" (優秀企業家) by the CNMFIA. In 2007, he was awarded the title of "Advanced Production Worker" by Cixi City, and was also awarded Outstanding Figure in the Industrial and Economic Year of Cixi City. In December 2009, he was recognized as a senior economist by Ningbo Municipal Personnel Bureau.

Mr. REN Hao, aged 34, is an executive Director of the Company since 18 October 2016. He is the head of the Company's gaming business. He was a director of Funnytime Limited which was acquired by the Group in August 2016. Before joining the Group, Mr. REN established a gaming company Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") in November 2014, which was controlled by Funnytime Limited through contractual agreements, and he acted as the chief executive officer of Hefei Zhangyue. Between 2010 to 2014, he served as the general manager of the web game division of Shenzhen ZQ Game Co., Ltd. (深圳中青寶互動網絡股份有限公司), a gaming company listed on the Shenzhen Stock Exchange. During 2007 to 2010, Mr. REN set up his own web game companies and was involved in both game development and operation. Before that, Mr. REN worked as an editor at the Yunnan TV Station. Mr. REN holds a bachelor degree of Business Management from Yunnan University. He is a director of Mobilefun Limited, a substantial shareholders within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. ZHU Wenjun, aged 35, is an executive Director of the Company since 18 October 2016 and the Chief Financial Officer of the Company since April 2015. Prior to joining the Group, he worked with Shanghai Guohe Capital, where he had led private equity investment deals in media, software, internet and financial services sectors. Mr. ZHU has over 10 years of experience of finance, investment and corporate management. He started his career with KPMG assurance services, and also worked at Deloitte Financial Advisory with its Corporate Restructuring Services. Mr. ZHU holds an M.B.A. degree from UCLA Anderson School of Management, and bachelor's degree in law from Shanghai University of International Business and Economics.

NON-EXECUTIVE DIRECTOR

Mr. DAI Jianchun, aged 40, is a non-executive Director since August 2015 and a member of Audit Committee and Nomination Committee of the Company since January 2015. He had been an independent non-executive Director and the chairman of Remuneration Committee of the Company from January to August 2015. He was re-designated as a non-executive Director and resigned from the chairman of Remuneration Committee in August 2015. He graduated from the School of Economics and Management at Tsinghua University, with the degree of Bachelor of Engineering in Management Information Systems in July 2000, where he also obtained a Master's Degree in Quantitive Economics in July 2002. Between August 2002 and July 2006, Mr. DAI worked as a portfolio manager in the capital markets department in the headquarters of China CITIC Bank. Mr. DAI then became a manager in Crédit Agricole Corporate and Investment Bank's Hong Kong office until January 2009. Mr. DAI is currently a founding partner of Ferry Venture Capital, a company that performs venture capital for entrepreneurial enterprises with an industry focus on the mobile internet, innovation of products and services through mobile internet (O2O) commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAI Chaoming, aged 47. is an independent non-executive Director of the Company since May 2009. He is the chairman of Audit Committee and Nomination Committee of the Company. He graduated and obtained a Bachelor degree in economics from Shanghai University of Finance & Economics and a Master degree in business administration from Guanghua School of Management of Beijing University. Mr. CHAI is a partner of Raystone Capital Management, LLP, a fund which focuses on private equity investment in China. Mr. CHAI has extensive corporate management and investment experience.

Dr. LOU Dong, aged 35, is an independent non-executive Director of the Company since August 2015. He is also the chairman of Remuneration Committee and a member of Nomination Committee of the Company. He graduated from Columbia University with a degree of Bachelors of Computer Science in 2004 and obtained a doctoral degree from Yale University in Financial Economics in 2009. Dr. LOU worked as an assistant professor in Finance at the London School of Economics and Political Science from 2009–2015, where he is currently an associate professor (tenured professor) in Finance. Dr. LOU is a researcher at the Centre for Economic Policy Research in the United Kingdom from 2013 to the present and an associate editor at Management Science and Journal of Empirical Finance from 2014 to the present.

Ms. LU Hong, aged 48, is an independent non-executive Director since May 2016. Ms. LU has over 20 years of experience in accounting, financial management, company secretarial and domestic and overseas capital markets field. She is a member of the Chinese Institute of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. LU has extensive knowledge and experience in accounting and is very familiar with listing rules and regulations both in Hong Kong and PRC. She has rich experience in the listing of corporations in the PRC, Hong Kong, Singapore and the United States of America, and foreign and domestic investment and financing operations as well as mergers and acquisitions. Ms. LU also specializes in financial analysis, budgeting, financial management and tax planning. Ms. LU has been an independent non-executive director of Sino Biopharmaceutical Limited (stock code: 1177), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Various aspects of the business and operations of the Group are respectively under direct responsibilities of the Executive Directors who are regarded as the senior management of the Company.

Independent Auditor's Report

To the shareholders of Huan Yue Interactive Holdings Limited
(formerly known as Xingye Copper International Group Limited)
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huan Yue Interactive Holdings Limited (formerly known as "**Xingye Copper International Group Limited**") ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 59 to 138, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement 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 Certified 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**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 4(a) to the consolidated financial statements and the accounting policies on page 86.

The Key Audit Matter	How the matter was addressed in our audit
The principal activities of the Group are the manufacture and sale of copper products. Revenue from the sale of copper products is recognised when the goods are delivered to the customers' designated location for domestic sales or when the goods are loaded on shipping vessels for overseas sales, which is considered to be the point in time when the Group transfers the significant risks and rewards associated with ownership of goods to the customers. The Group's sales contracts with customers have a variety of terms in relation to goods acceptance and the calculation of sales rebates. Management evaluates the terms of individual contracts in order to determine the appropriate timing of revenue recognition and the amounts which should be recognised.	Our audit procedures to assess the recognition of revenue from the sale of copper products included the following: • assessing the design, implementation and operating effectiveness of the relevant key internal controls which govern revenue recognition from the sale of copper products; • inspecting key customer contracts and evaluating the Group's revenue recognition policies, including the timing of revenue recognition and the amount of revenue recognised, with reference to the requirements of the prevailing accounting standards; • comparing revenue transactions recognised during the year, on a sample basis, with contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading and assessing whether revenue was recognised in accordance with the Group's revenue recognition policies; • comparing, on a sample basis, specific revenue transactions recorded just before and just after the financial year end date with sales contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading to determine whether the revenue had been recognised in the appropriate financial period;

KEY AUDIT MATTERS (Continued)

Revenue recognition (continued)

The Key Audit Matter (continued)

We identified revenue recognition from the sale of copper products as a key audit matter because revenue is a key performance indicator of the Group which could create an incentive for manipulation of revenue to meet targets or expectations.

How the matter was addressed in our audit (continued)

- recalculating, on a sample basis, sales rebates recognised during the year with reference to the terms contained in customers' sales contracts and the actual sales volumes for customers qualifying for rebates, comparing our calculations with those of the Group and assessing whether the sales rebates had been recognised in the appropriate financial period;
- inspecting a sample of credit notes issued in December 2016 and January 2017 to evaluate whether the adjustments to revenue had been accurately recorded in the appropriate accounting period; and
- inspecting manual adjustments to revenue made during the reporting period applying risk-based sampling techniques, enquiring of management as to the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

KEY AUDIT MATTERS (Continued)

Purchase accounting for the acquisition of Funnytime Limited

Refer to note 28 to the consolidated financial statements and the accounting policies on page 124.

The Key Audit Matter

In August 2016, the Group acquired a 100% interest in Funnytime Limited ("**Funnytime**"). The purchase consideration comprised fixed cash consideration of HK$97,400,000 and contingent consideration to be settled in the form of cash and newly issued ordinary shares of the Company if Funnytime achieves performance targets in terms of adjusted net profit for each performance year from 2016 to 2018.

Management engaged an independent valuer to determine the fair values of the acquired net assets and the contingent consideration.

There is inherent uncertainty in assessing the fair values of the assets and liabilities acquired and the contingent consideration. A significant level of judgement is, therefore, required to be exercised, particularly in identifying and valuing previously unrecognised intangible assets and in estimating the contingent consideration.

How the matter was addressed in our audit

Our audit procedures to assess the purchase accounting for the acquisition of Funnytime included the following:

- reading the sale and purchase agreement to understand the key terms and conditions;
- evaluating the competence, capabilities and objectivity of the independent external valuer engaged by management;
- reading the independent external valuation report on which management's estimate of the fair values of the identifiable net assets acquired and the contingent consideration was based;
- engaging our internal valuation specialists to assist us in challenging the methodology adopted to identify both the assets and liabilities acquired and assessing the nature of the intangible assets identified by considering the underlying current and prospective revenue streams of Funnytime with reference to the requirements of the prevailing accounting standards;
- engaging our internal valuation specialists to assist us in assessing the valuation model applied in the contingent consideration calculation by the independent external valuer with reference to terms in the signed sale and purchase agreement;

KEY AUDIT MATTERS (Continued)

Purchase accounting for the acquisition of Funnytime Limited (continued)

The Key Audit Matter (continued)

We identified the purchase accounting for the acquisition of Funnytime as a key audit matter because of the complexity and significant degree of management judgement involved in the following areas:

- the identification and valuation of identifiable assets and liabilities of the acquired business at the acquisition date; and
- the determination of the purchase consideration, in particular, the determination of the fair value of the contingent consideration at the acquisition date.

How the matter was addressed in our audit (continued)

- engaging our internal valuation specialists to assist us in assessing the key assumptions, including the revenue growth rate the and discount rate, adopted in determining the fair values of identifiable intangible assets by comparing key customers' revenue levels with historical revenue levels and signed service contracts and by considering external market data and our past experience of similar transactions; and
- assessing the disclosures in the consolidated financial statements in respect of the acquisition of Funnytime with reference to the requirements of the prevailing accounting standards.

KEY AUDIT MATTERS (Continued)

Potential impairment of property, plant and equipment

Refer to notes 13 to the consolidated financial statements and the accounting policies on page 101.

The Key Audit Matter	How the matter was addressed in our audit
Property, plant and equipment of the Group comprises plant and buildings, copper production machinery and other equipment. At 31 December 2016 the carrying value of property, plant and equipment of the Group was RMB1,098,740,000, which represented 43% of the Group's total assets at that date. During the year ended 31 December 2016, management identified indicators of potential impairment of a copper product production line because some technical specifications of the production line's key machinery were not satisfactory enough to produce the budgeted specialised output and also because the capacity of the production line was affected, which could lead to economic or functional obsolescence. There is a risk that the carrying value of the production line may not be recoverable in full. Therefore, management conducted an impairment assessment of the separately identifiable cash generating unit ("**CGU**") which contains this production line. The recoverable amount of an asset is the greater of its fair value less costs of disposal ("**FVLCOD**") and value in use ("**VIU**"). Management engaged an independent valuation firm to assist in determining the recoverable amount of the CGU containing the production line by performing calculations of both FVLCOD (where the cost approach was adopted) and VIU. Based on the recoverable amount, which was assessed as FVLCOD, an impairment loss of RMB80,271,000 was recognised as at 31 December 2016.	Our audit procedures to assess impairment of property, plant and equipment included the following: • challenging the evidence on which management based its assessment as to whether indicators of impairment existed by comparing budgeted performance with the current performance, taking into consideration changes in market conditions; • assessing management's identification of CGUs and the allocation of assets to these CGUs with reference to the requirements of the prevailing accounting standards; • assessing the independence, competence, capabilities and objectivity of the independent valuation firm engaged by management; • engaging our internal valuation specialists to assist us in evaluating the valuation techniques used to measure the recoverable amount of the CGU, in particular the rationale for the application of the cost approach, rather than market approach and income approach, and considering the nature of the CGU, its environment and industry and the nature of the related assets, with reference to the requirements of the prevailing accounting standards;

KEY AUDIT MATTERS (Continued)

Potential impairment of property, plant and equipment (continued)

The Key Audit Matter (continued)

The determination of FVLCOD involves significant judgement, particularly in estimating the unobservable inputs applied in the cost approach, as the assets comprising the CGU are not traded in an active market and no binding sale agreement is available. Major unobservable inputs include replacement costs, physical deterioration, functional deterioration, economic deterioration and costs of disposal.

We identified assessing impairment of property, plant and equipment as a key audit matter because assessing impairment involves significant judgement in determining the various inputs into the impairment assessment model, which can be inherently uncertain and could be subject to management bias in their selection.

How the matter was addressed in our audit (continued)

- engaging our internal valuation specialists to assist us in evaluating the underlying assumptions applied in the FVLCOD model, including replacement costs, physical deterioration, functional deterioration and economic deterioration, by comparing these assumptions with historical performance, external market data, operations of comparable companies;
- engaging our internal valuation specialists to assist us in evaluating the costs of disposal in the FVLCOD model to assess whether all and only necessary costs of disposal were included by reference to industry practice and our past experience of similar transactions; and
- performing alternative calculations based on the key assumptions adopted in FVLCOD calculation, with reference to external market data and operations of comparable companies, and considering the possibility of management bias by assessing whether there were any material differences between the results of the alternative calculations independently performed by us and management's calculation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all 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 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors 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. This 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 RESPONSIBILITY 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 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 Steven Roy Parker.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016 (Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Revenue	4(a)	3,435,511	2,942,663
Cost of sales		(2,882,979)	(2,684,335)
Gross profit		552,532	258,328
Other income	5	29,292	57,010
Distribution expenses		(48,385)	(26,992)
Administrative expenses		(266,492)	(204,364)
Other expenses	6	(106,397)	(11,319)
Profit from operations		160,550	72,663
Finance income		4,346	6,655
Finance costs		(52,757)	(53,176)
Net finance costs	7(a)	(48,411)	(46,521)
Profit before taxation		112,139	26,142
Income tax	8	(22,330)	(5,293)
Profit for the year		89,809	20,849
Attributable to:			
Equity shareholders of the Company		84,805	18,848
Non-controlling interests		5,004	2,001
Profit for the year		89,809	20,849
Earnings per share	12		
Basic (RMB)		0.10	0.02
Diluted (RMB)		0.10	0.02

The notes on pages 67 to 138 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(d).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016 (Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Profit for the year		**89,809**	20,849
Other comprehensive income for the year (after tax and reclassification adjustments)	*11*		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas operations		**(2,190)**	3,505
Other comprehensive income for the year		**(2,190)**	3,505
Total comprehensive income for the year		**87,619**	24,354
Attributable to:			
Equity shareholders of the Company		**82,615**	22,353
Non-controlling interests		**5,004**	2,001
Total comprehensive income for the year		**87,619**	24,354

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2016 (Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	13	1,098,740	1,160,914
Lease prepayments	14	13,840	14,199
Intangible Assets	15	8,760	–
Goodwill	16	138,153	–
Deferred tax assets	8(d)	25,851	–
Deposits for acquisition of property, plant and equipment		3,647	15,973
		1,288,991	1,191,086
Current assets			
Inventories	17	584,416	424,654
Trade and other receivables	18	461,103	364,729
Derivative financial instruments	19	4,304	830
Available-for-sale investment		–	9,000
Pledged bank deposits	20	49,570	33,298
Cash and cash equivalents	21	168,942	209,915
		1,268,335	1,042,426
Current liabilities			
Trade and other payables	22	829,592	545,863
Interest-bearing borrowings	23	622,271	487,662
Derivative financial instruments	19	4,949	1,711
Income tax payable		23,841	718
		1,480,653	1,035,954
Net current (liabilities)/assets		(212,318)	6,472
Total assets less current liabilities		1,076,673	1,197,558

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

At 31 December 2016 (Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Interest-bearing borrowings	23	80,000	336,710
Contingent consideration payable	28	46,093	–
Deferred income	24	49,449	50,721
Deferred tax liabilities	8(d)	15,241	7,052
		190,783	394,483
NET ASSETS		885,890	803,075
CAPITAL AND RESERVES			
Share capital	25(b)	73,687	73,687
Reserves		784,444	705,085
Total equity attributable to equity shareholders of the Company		858,131	778,772
Non-controlling interests		27,759	24,303
TOTAL EQUITY		885,890	803,075

Approved and authorised for issue by the board of directors on 24 March 2017.

Hu Minglie

Directors

Zhu Wenjun

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016 (Expressed in RMB)

		Attributable to equity shareholders of the Company									
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 1 January 2015		64,881	227,978	259,726	80,826	(18,379)	349	65,337	680,718	36,452	717,170
Profit for the year		–	–	–	–	–	–	18,848	18,848	2,001	20,849
Other comprehensive income		–	–	–	–	3,505	–	–	3,505	–	3,505
Total comprehensive income		–	–	–	–	3,505	–	18,848	22,353	2,001	24,354
Share options exercised	*25(b)&(c)*	135	628	–	–	–	(49)	–	714	–	714
Issuance of new shares	*25(b)&(c)*	8,671	66,645	–	–	–	–	–	75,316	–	75,316
Share options lapsed	*25(c)(vi)*	–	–	–	–	–	(300)	–	(300)	–	(300)
Disposal of interest in a subsidiary		–	–	–	(29)	–	–	–	(29)	(14,150)	(14,179)
At 31 December 2015		73,687	295,251	259,726	80,797	(14,874)	–	84,185	778,772	24,303	803,075

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016 (Expressed in RMB)

		Attributable to equity shareholders of the Company									
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for Share Award Scheme *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 31 December 2015 and 1 January 2016		73,687	295,251	259,726	80,797	(14,874)	–	84,185	778,772	24,303	803,075
Profit for the year		–	–	–	–	–	–	84,805	84,805	5,004	89,809
Other comprehensive income		–	–	–	–	(2,190)	–	–	(2,190)	–	(2,190)
Total comprehensive income		–	–	–	–	(2,190)	–	84,805	82,615	5,004	87,619
Profit appropriation to reserve		–	–	–	3,000	–	–	(3,000)	–	–	–
Treasury shares held for Share Award Scheme	*27(c)*	–	–	–	–	–	(3,256)	–	(3,256)	–	(3,256)
Liquidation of interest in subsidiaries		–	–	–	(22,866)	–	–	22,866	–	–	–
Disposal of interest in a subsidiary		–	–	–	–	–	–	–	–	(987)	(987)
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	(561)	(561)
At 31 December 2016		73,687	295,251	259,726	60,931	(17,064)	(3,256)	188,856	858,131	27,759	885,890

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016 (Expressed in RMB)

	2016 *RMB'000*	2015 *RMB'000*
Cash flows from operating activities		
Profit for the year	89,809	20,849
Adjustment for:		
Depreciation of property, plant and equipment	73,981	63,918
Amortisation of lease prepayments	359	358
Amortisation of intangible assets	1,440	–
Impairment losses on property, plant and equipment	105,120	–
Loss on disposal of property, plant and equipment	672	4,776
Gain on disposal of property, plant and equipment	(139)	–
Net finance costs	48,411	46,521
Equity-settled share-based payment transactions	–	(300)
Unrealised fair value change on derivative financial instruments	1,726	1,711
Gain on liquidation of interest in a joint venture	(1,467)	–
Loss on disposal of interest in an associate	–	2,629
Loss on disposal of interest in a subsidiary	7	426
Income tax expense	22,330	5,293
Amortisation of deferred income	(3,138)	(1,245)
	339,111	144,936
Changes in working capital:		
Inventories	(159,700)	73,344
Trade and other receivables	(126,179)	68,648
Trade and other payables	213,350	47,259
Cash generated from operations	266,582	334,187
Interest paid	(42,081)	(53,622)
Income tax paid	(19,419)	(12,579)
Net cash generated from operating activities	205,082	267,986

The notes on pages 67 to 138 form part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016 (Expressed in RMB)

	Note	2016 *RMB'000*	2015 *RMB'000*
Cash flows from investing activities			
Interest received		**2,140**	5,825
Proceeds from disposal of property, plant and equipment		**398**	125
Net proceeds from disposal of interest in a subsidiary		**(1,424)**	19,151
Acquisition of property, plant and equipment, net of deposits placed in previous years		**(94,207)**	(176,578)
Acquisition of available-for-sale investment		**(5,000)**	(9,000)
Proceeds from settlement of available-for-sale investment		**14,225**	–
Placement of deposit for acquisition of property, plant and equipment		**(1,667)**	(15,973)
Proceeds from disposal of interest in a joint venture		**1,467**	–
Acquisition of subsidiaries	*28*	**(82,508)**	–
Loans collected from a third party		**–**	49,334
Government grants received		**1,000**	8,910
Net cash used in investing activities		**(165,576)**	(118,206)
Cash flows from financing activities			
Repayment of borrowings		**(1,005,782)**	(2,061,170)
Proceeds from borrowings		**926,531**	1,760,051
Payment for purchase of shares in connection with Share Award Scheme	*27(c)*	**(3,256)**	–
Change in pledged deposits		**–**	159,054
Proceeds from exercise of share options		**–**	714
Proceeds from issuance of shares, net of issuance expenses		**–**	75,316
Net cash used in financing activities		**(82,507)**	(66,035)
Net (decrease)/increase in cash and cash equivalents		**(43,001)**	83,745
Cash and cash equivalents at 1 January		**209,915**	123,058
Effect of movements in exchange rates on cash held		**2,028**	3,112
Cash and cash equivalents at 31 December		**168,942**	209,915

The notes on pages 67 to 138 form part of these financial statements.

1 REPORTING ENTITY AND BACKGROUND INFORMATION

Huan Yue Interactive Holdings Limited (the "**Company**", formerly known as "**Xingye Copper International Group Limited**") was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2007 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 27 December 2007 (the "**Listing Date**").

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "**Group**"). The principal activities of the Group are the manufacture and sale of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online games business in August 2016 (note 28) the Group's activities also include developing, publishing and operating online games and provision of related services.

Pursuant to a special resolution passed by the shareholders of the Company on 13 September 2016, the issue of a Certificate of Incorporation on Change of Name by the Registrar of Companies in the Cayman Islands on 13 September 2016 and the issue of a Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company by the Registrar of Companies in Hong Kong on 11 October 2016, the English name of the Company was changed from "Xingye Copper International Group Limited" to "Huan Yue Interactive Holdings Limited" and the dual foreign name in Chinese of the Company was changed from "興業銅業國際集團有限公司" to "歡悅互娛控股有限公司".

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRSs), which collective term includes all applicable individual International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and related Interpretations, issued by the International Accounting Standards Board (IASB), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. None of these developments have significantly impacted on the financial position and results of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 33).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale;
- contingent consideration payable; and
- derivative financial instruments (see note 2(h)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Functional and presentation currency

These consolidated financial statements are presented in Renminbi ("**RMB**"), which is the functional currency of the Group's subsidiaries located in the PRC. All financial information presented in RMB has been rounded to the nearest thousands, except when otherwise indicated. The functional currency of the Company and its subsidiaries incorporated in Hong Kong and British Virginia Island is Hong Kong dollar ("**HKD**")

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

(i) Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 2 (m)(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see note 2(g)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries and non-controlling interests

Subsidiaries and non-controlling interests are entities (including structured entities) controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests (Continued)

(ii) Subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint ventures (Continued)

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 2(m)).

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)(ii)).

On disposal of a cash generating units during the year, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(m)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 2(m)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses (see notes 2(m)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, and an appropriate proportion of production overheads and borrowing costs (see note 2(x)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives as follows:

Plant and buildings	10-35 years
Machinery	5-20 years
Electronic and other equipment	3-10 years
Motor vehicles	5-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any are reviewed annually.

(j) Lease prepayments

Lease prepayments in the consolidated statement of financial position represent cost of land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see note 2(m)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(k) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group upon acquisition of subsidiaries are measured at fair value upon initial recognition. Subsequent to initial recognition, those intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (see note 2(m)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (other than goodwill) (Continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Exclusive right for operation of online games	2.5 years
Product technology	1.5-2.5 years
Non-compete agreement	7 years

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(m)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for contingent consideration payables, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the share issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

(t) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax basis. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Publishing and operating online games

The Group publishes third party developers' games on third party distribution channels. As the Group neither has the primary responsibility for fulfilment of the online games services nor the latitude to establish prices, the Group views itself as an agent providing publishing and operation services to the games developers through distribution channels, and thus the Group recognises revenue on a net basis, which is the net proceeds entitled to by the Group according to revenue sharing agreements.

(iii) Services income

Service income is recognised when the related service is rendered.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition (Continued)

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

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

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the other).

(b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Group of which the other entity is a member).

(c) both entities are joint ventures of the same third party.

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(f) the entity is controlled or jointly controlled by a person identified in (i).

(g) a person identified in (i)(a) 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).

(h) 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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

- Note 2(v) – Revenue from publishing and operating online games: whether the Group acts as an agent in the transaction rather than as a principal.
- Note 27(b)&(c) – Consolidation: whether the Group has control over entities through contractual arrangements and trusts.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment of trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgement is exercised by management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated comprehensive income.

(ii) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The management reviews the estimated useful lives and the residual values, if any, of the assets regularly in order to determine the amount of depreciation and amortisation charge for the year. Management determines the remaining useful life of the acquired intangible assets based on management's expertise in the industry. It could change significantly as a result of changes in the market. The useful lives of other assets are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(iii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor's actions in response to severe industry cycles or other changes in market conditions. Management reassess the estimations at each reporting date.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty (Continued)

(iv) Impairment of non-current assets

Management determines the impairment loss on non-current assets other than goodwill if circumstances indicate that the carrying value of an asset may not be recoverable. Goodwill is tested annually for impairment. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and the amount of operating costs.

(v) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislation. Deferred tax assets are recognised for deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(vi) Fair value of contingent considerations

The Group's business combinations involve post-acquisition performance-based contingent considerations. The Group recognises contingent considerations at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition financial performance of the acquired subsidiaries. Judgement is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition financial performance of the acquired subsidiaries. Changes to key assumptions can significantly affect the amounts of future liabilities. Contingent considerations shall be re-measured at their fair value resulting from events or factors that emerge after the acquisition date, with any resulting gain or loss recognised in the consolidated statement of profit and loss.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are (i) the manufacture and sales of high precision copper plates and strips, trading of raw materials, provision of processing services; and (ii) developing, publishing and operating online games and provision of related services.

The amount of each significant category of revenue recognised during the year is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Copper products related:		
– Sales of high precision copper plates and strips	3,202,160	2,560,790
– Processing service fees	160,906	142,704
– Trading of raw materials	55,849	239,169
	3,418,915	2,942,663
Online games related:		
– Technical service income	9,580	–
– Publishing and operating online games	6,698	–
– Others	318	–
	16,596	–
	3,435,511	2,942,663

The Group's customer base for copper products is diversified and included only one customer (2015: none) with whom the total transactions amount exceeded 10% of the Group's revenues. In 2016 revenues from sales of high precision copper plates and strips to this customer amounted to RMB475,280,000 (2015: RMB70,784,000). Details of concentrations of credit risk arising from this customer are set out in note 29(a). Further details regarding the Group's principal activities are disclosed below:

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Copper products – this segment carries on the business of manufacturing and selling high precision copper plates and strips products, providing processing services of copper plates and strips products and trading of raw materials.

Online games – this segment carries on the business of developing, publishing and operating online games and providing technical support services.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all assets in the consolidated financial statements. Segment liabilities include all liabilities, with the exception of unallocated corporate liabilities.

Expenses are allocated to the reportable segments with reference to the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The measure used for reporting segment profit is profit before taxation. In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue, interest income and expenses related to cash balances and borrowings managed directly by segments, depreciation and amortisation, impairment losses and additions to non-current segment assets used by the segments in their operations. No inter-segment sales have occurred for the years ended 31 December 2016 and 2015.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) ***Segment results, assets and liabilities*** (Continued)

	Copper products		Online games		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers and reportable segment revenue	**3,418,915**	2,942,663	**16,596**	–	**3,435,511**	2,942,663
Reportable segment profit (profit before taxation)	**105,816**	26,142	**6,323**	–	**112,139**	26,142
Interest income from bank deposits	**2,356**	5,825	**9**	–	**2,365**	5,825
Net interest expense	**(33,605)**	(38,495)	**–**	–	**(33,605)**	(38,495)
Depreciation and amortisation for the year	**(74,314)**	(64,276)	**(1,466)**	–	**(75,780)**	(64,276)
Impairment of plant and machinery	**(105,120)**	–	**–**	–	**(105,120)**	–
Reportable segment assets	**2,381,621**	2,233,512	**175,765**	–	**2,557,386**	2,233,512
Additions to non-current segment assets during the year	**122,808**	171,321	**148,539**	–	**271,347**	171,321
Reportable segment liabilities	**1,583,707**	1,430,437	**9,106**	–	**1,592,813**	1,430,437

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment assets and liabilities

	2016 RMB'000	2015 RMB'000
Assets		
Reportable segment assets	2,557,386	2,233,512
Elimination of inter-segment receivables	(60)	–
Consolidated total assets	2,557,326	2,233,512

	2016 RMB'000	2015 RMB'000
Liabilities		
Reportable segment liabilities	1,592,813	1,430,437
Elimination of inter-segment payables	(60)	–
Unallocated corporate liabilities	78,683	–
Consolidated total liabilities	1,671,436	1,430,437

(iii) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods were delivered.

	2016 RMB'000	2015 RMB'000
Revenue		
PRC	3,049,316	2,516,045
Others	386,195	426,618
	3,435,511	2,942,663

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information (Continued)

The Group's non-current assets (excluding deferred tax assets) are all located in mainland China. The geographical location of the Group's non-current assets (excluding deferred tax assets) is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill.

5 OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Government grants	**18,912**	31,605
Gain on liquidation of interest in a joint venture	**1,467**	–
Gains from derivate financial instruments	**6,152**	19,678
Gain on disposal of property, plant and equipment	**139**	–
Others	**2,622**	5,727
	29,292	57,010

Government grants represented unconditional government grants of RMB15,916,000 (2015: RMB30,360,000) awarded to the Group as a recognition of the Group's contribution to the development of the local economy, and the amortisation of deferred government grants of RMB2,996,000 during the year ended 31 December 2016 (2015: RMB1,245,000) (note 24).

6 OTHER EXPENSES

	2016	2015
	RMB'000	*RMB'000*
Impairment losses on property, plant and equipment *(note 13)*	**105,120**	–
Loss on disposal of property, plant and equipment	**672**	4,776
Loss on disposal of interest in an associate	**–**	2,629
Loss on disposal of interest in a subsidiary	**7**	426
Others	**598**	3,488
	106,397	11,319

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after crediting/(charging):

(a) Net finance costs

	2016	2015
	RMB'000	*RMB'000*
Interest income on bank deposits	**2,365**	5,825
Change in fair value of contingent consideration payables	**19**	–
Unrealised gains from foreign exchange forward contracts and interest rate swap contracts	**1,962**	830
Finance income	**4,346**	6,655
Interest expenses	**(43,117)**	(53,622)
Less: interest expenses capitalised*	**9,512**	15,127
Net interest expense recognised in profit or loss	**(33,605)**	(38,495)
Net foreign exchange loss	**(19,152)**	(14,681)
Finance costs	**(52,757)**	(53,176)
Net finance costs	**(48,411)**	(46,521)

* The borrowing costs were capitalised at rates of 1.02%~6.72% per annum in 2016 (2015: 1.02%~6.72% per annum).

(b) Personnel costs

	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**120,359**	90,940
Contributions to defined contribution plan	**6,021**	4,586
	126,380	95,526

7 PROFIT BEFORE TAXATION (Continued)

(b) Personnel costs (Continued)

The Group participates in pension funds organised by the PRC government. According to the related pension fund regulations, the Group is required to pay annual contributions during the year. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees employed by the Company in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement 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.

(c) Other items

	2016 ***RMB'000***	2015 *RMB'000*
Cost of inventories*	**2,878,577**	2,684,335
Depreciation *(note 13)*	**73,981**	63,918
Amortisation		
– Lease prepayments *(note 14)*	**359**	358
– Intangible assets *(note 15)*	**1,440**	–
Impairment loss on property, plant and equipment	**105,120**	–
Research and development expenditure (included in administrative expenses)	**164,947**	128,655
Operating lease charges	**648**	587
Auditor's remuneration-audit services	**2,890**	1,700

* Cost of inventories includes RMB91,588,000 (2015: RMB81,835,000) relating to staff costs and depreciation expenses which amounts are also included in the respective total amounts disclosed separately above or in note 7(b) for each type of expenses.

8 INCOME TAXES

(a) Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	*RMB'000*
Current tax		
Provision for the year	**41,854**	12,479
Over-provision in respect of prior year	**(812)**	(1,750)
	41,042	10,729
Deferred tax		
Origination and reversal of temporary differences	**(33,712)**	(5,917)
PRC withholding tax	**15,000**	481
	22,330	5,293

(i) Pursuant to the tax rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

(ii) The applicable profits tax rate of the Group's subsidiaries incorporated in Hong Kong was 16.5% (2015: 16.5%).

(iii) The provision for PRC income tax is based on the respective Corporate Income Tax rates applicable to the subsidiaries located in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC.

For the year ended 31 December 2016, the standard income tax rate for all companies established in the PRC was 25%, except for Ningbo Xingye Shengtai Group Limited ("**Shengtai Group**"), which has been granted the status of High and New-Technology Enterprise by the local tax authorities and is entitled to a reduced tax rate of 15% for the three years from 2014 to 2016.

(iv) The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As at 31 December 2016, deferred tax liabilities of RMB15,000,000 (2015: RMB1,500,000) have been recognised in connection with withholding tax that would be payable on the distribution of retained profits of the Group's PRC subsidiaries.

8 INCOME TAXES (Continued)

(b) Reconciliation between actual tax expense and accounting profit at applicable tax rates:

	2016 *RMB'000*	2015 *RMB'000*
Profit before taxation	112,139	26,142
Notional tax on profit before taxation, calculated at the applicable rates in the tax jurisdictions concerned	30,612	12,331
Tax effect of unused tax losses not recognised as deferred tax assets	231	4,917
Tax effect of utilised tax losses not recognised in prior years	(3,940)	–
Withholding tax on profits retained by PRC subsidiaries	15,000	481
Withholding tax on liquidation of interest in a PRC subsidiary	714	–
Effect of tax concessions of Shengtai Group	(19,831)	(7,196)
Additional deduction for qualified research and development expenses	–	(3,603)
Over-provision in prior year	(812)	(1,750)
Tax effect of non-deductible expenses	356	113
Actual tax expense	22,330	5,293

8 INCOME TAXES (Continued)

(c) Movement in deferred tax assets/(liabilities) during the year

	Accelerated depreciation and impairment of property, plant and equipment	Impairment of other receivables	Write down on inventory	Change in fair value of derivative financial instruments	Deferred income	Withholding tax on dividends	Intangible assets	Unrealised profits arising from intra-group transactions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	(14,560)	1,196	2,346	(451)	–	(1,019)	–	–	(12,488)
Credit/(charged) to profit or loss	5,694	(1,196)	(1,296)	704	2,011	(481)	–	–	5,436
At 1 January 2016	(8,866)	–	1,050	253	2,011	(1,500)	–	–	(7,052)
Reclassified to tax payable upon distribution of dividends	–	–	–	–	–	1,500	–	–	1,500
Credit/(charged) to profit or loss	31,935	–	(411)	(92)	74	(15,000)	360	1,846	18,712
Acquisition through business combination *(note 28)*	–	–	–	–	–	–	(2,550)	–	(2,550)
At 31 December 2016	23,069	–	639	161	2,085	(15,000)	(2,190)	1,846	10,610

8 INCOME TAXES (Continued)

(d) Reconciliation to consolidated statement of financial position

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	25,851	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	(15,241)	(7,052)
	10,610	(7,052)

(e) Unrecognised deferred tax assets and liabilities

Deferred tax assets/(liabilities) have not been recognised in respect of the following items:

	2016 RMB'000	2015 RMB'000
Tax losses of subsidiaries *(i)*	36,833	60,043
Retained earnings of PRC subsidiaries not expected to be distributed outside of the PRC in the foreseeable future *(ii)*	108,834	91,716

(i) Deferred tax assets have not been recognised in respect of the tax losses of certain subsidiaries of the Group because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

(ii) Deferred tax liabilities in relation to withholding tax have not been recognised for the above retained earnings from PRC subsidiaries as the Company controls the timing and amounts of distribution and does not expect to incur such liabilities in the foreseeable future.

9 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Year ended 31 December 2016					
Name of directors	Director' fees	Salaries, allowances and benefits in kind	Retirement scheme contributions	Discretionary bonus	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors						
Mr. Hu Changyuan	–	360	–	–	–	360
Mr. Chen Jianhua	–	300	11	300	–	611
Mr. Wang Jianli (resigned on 18 October 2016)	–	491	11	288	–	790
Mr. Ma Wanjun (resigned on 18 October 2016)	–	455	11	370	–	836
Mr. Hu Minglie	–	570	10	420	–	1,000
Mr. Zhu Wenjun (appointed on 18 October 2016)	–	890	–	–	–	890
Mr. Ren Hao (appointed on 18 October 2016)	–	125	–	–	–	125
Non-executive directors						
Mr. Dai Jianchun	156	–	–	–	–	156
Independent non-executive directors						
Mr. Mao Xuechang (resigned on 27 May 2016)	68	–	–	–	–	68
Mr. Chai Chaoming	102	–	–	–	–	102
Mr. Lou Dong	102	–	–	–	–	102
Ms. Lu Hong (appointed on 27 May 2016)	61	–	–	–	–	61
	489	3,191	43	1,378	–	5,101

9 DIRECTORS' REMUNERATION (Continued)

	Year ended 31 December 2015					
Name of directors	Director' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Discretionary bonus *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Executive directors						
Mr. Hu Changyuan	–	372	–	–	–	372
Mr. Chen Jianhua	–	316	11	300	–	627
Mr. Wang Jianli	–	398	10	369	–	777
Mr. Ma Wanjun	–	424	10	344	–	778
Mr. Hu Minglie	–	433	11	280	–	724
Non-executive directors						
Mr. Dai Jianchun* (appointed on 19 January 2015)	95	–	–	–	–	95
Independent non-executive directors						
Mr. Cui Ming (resigned on 19 January 2015)	23	–	–	–	–	23
Ms. Li Li (resigned on 14 January 2015)	23	–	–	–	–	23
Mr. Mao Xuechang	102	–	–	–	–	102
Mr. Chai Chaoming	102	–	–	–	–	102
Mr. Lou Dong (appointed on 17 August 2015)	38	–	–	–	–	38
	383	1,943	42	1,293	–	3,661

There were no amounts paid during the year to directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement during the year under which a director waived or agreed to waive any remuneration.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, all (2015: 4) are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other 1 individual in 2015 is as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Wages, salaries and other benefits	–	966
Contributions to defined contribution plan	–	–
Share-based payments	–	–
	–	966

The above individual's emoluments was within the band of HKD1,000,001 to HKD1,500,000 in 2015.

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

11 OTHER COMPREHENSIVE INCOME

Tax effect relating to each component of other comprehensive income

	2016			2015		
	Before-tax ***RMB'000***	**Tax (expense)/ benefit amount** ***RMB'000***	**Net-of-tax amount** ***RMB'000***	Before-tax *RMB'000*	Tax (expense)/ benefit amount *RMB'000*	Net-of-tax amount *RMB'000*
Exchange difference on translation of financial statements of overseas subsidiaries	(2,190)	–	(2,190)	3,505	–	3,505
Other comprehensive income	(2,190)	–	(2,190)	3,505	–	3,505

12 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB84,805,000 (2015: RMB18,848,000) and the weighted average number of 809,806,092 ordinary shares (2015: 755,733,950) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Ordinary shares in issue at 1 January	811,115,950	699,501,950
Effect of share options exercised *(note 25(b))*	–	1,275,000
Effect of new shares issued *(note 25(b))*	–	54,957,000
Effect of treasury shares held for Share Award Scheme *(note 27(c))*	(1,309,858)	–
Weighted average number of ordinary shares in issue at 31 December	809,806,092	755,733,950

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB84,805,000 (2015: RMB18,848,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 817,914,330 ordinary shares (2015: 755,733,950), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015
Weighted average number of ordinary shares at 31 December (basic)	809,806,092	755,733,950
Effect of contingent issuable ordinary shares	8,108,238	–
Weighted average number of ordinary shares at 31 December (diluted)	817,914,330	755,733,950

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings	Machinery	Electronic and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2015	228,651	810,990	17,105	8,855	429,309	1,494,910
Additions	1,063	6,705	860	2,838	159,855	171,321
Transfer	18,049	99,216	990	–	(118,255)	–
Disposals or written-offs	(6,518)	(4,311)	(4,340)	(2,158)	(4,042)	(21,369)
At 31 December 2015	241,245	912,600	14,615	9,535	466,867	1,644,862
Acquisitions through business combination *(note 28)*	–	–	155	–	–	155
Additions	73	29,326	8,018	1,049	79,514	117,980
Transfer from construction in progress	3,695	482,970	–	–	(486,665)	–
Transfer to construction in progress	–	(17,913)	–	–	4,859	(13,054)
Disposals or written-offs	–	(708)	(576)	(1,119)	–	(2,403)
At 31 December 2016	245,013	1,406,275	22,212	9,465	64,575	1,747,540
Accumulated depreciation and impairment losses						
At 1 January 2015	(52,311)	(368,888)	(6,680)	(4,577)	(4,042)	(436,498)
Charge for the year	(7,762)	(53,398)	(1,716)	(1,042)	–	(63,918)
Disposals or written-offs	5,867	3,961	685	1,913	4,042	16,468
At 31 December 2015	(54,206)	(418,325)	(7,711)	(3,706)	–	(483,948)
Charge for the year	(8,322)	(62,798)	(1,744)	(1,117)	–	(73,981)
Impairment losses	–	(105,120)	–	–	–	(105,120)
Transfer to construction in progress	–	13,054	–	–	–	13,054
Disposals or written-offs	–	124	498	573	–	1,195
At 31 December 2016	(62,528)	(573,065)	(8,957)	(4,250)	–	(648,800)
Net book value						
At 31 December 2016	182,485	833,210	13,255	5,215	64,575	1,098,740
At 31 December 2015	187,039	494,275	6,904	5,829	466,867	1,160,914

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

(i) Property, plant and equipment owned by the Group are all located in the PRC.

(ii) Certain property, plant and equipment with aggregate carrying amount of RMB897,591,000 (2015: RMB686,926,000) were pledged as security for bank loans at 31 December 2016 (see note 23(iii)).

(iii) As at 31 December 2016, the Group was in the process of applying for the title certificates for certain of its properties with an aggregate carrying value of RMB22,415,000 (2015: RMB19,929,000). The directors of the Company are of the opinion that the Group is entitled to lawfully occupy and use the above mentioned properties.

Impairment losses

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd., and certain production machinery and equipment became idle. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their recoverable amount of RMB8,674,000. An impairment loss of RMB24,849,000 was recognised in "Other expenses". The estimates of recoverable amount were based on fair value less costs of disposal, using the market approach by reference to the estimated sales value as at 31 December 2016. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

During the year ended 31 December 2016, the Group identified indicators of potential impairment of a copper product production line with a carrying amount of RMB344,407,000 because certain technical specifications of the production line's key machinery were not satisfactory enough to produce the budgeted specialised output and also because the capacity of the production line was affected, which could lead to economic or functional obsolescence. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their recoverable amount of RMB264,136,000. An impairment loss of RMB80,271,000 was recognised in "Other expenses". The estimates of recoverable amount were based on fair value less costs of disposal, using a cost approach. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

14 LEASE PREPAYMENTS

	RMB'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	17,547
Accumulated amortisation	
At 1 January 2015	(2,990)
Charge for the year	(358)
At 31 December 2015	(3,348)
Charge for the year	**(359)**
At 31 December 2016	**(3,707)**
Net book value	
As at 31 December 2016	**13,840**
As at 31 December 2015	14,199

(i) Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 50 years when granted.

(ii) Certain land use rights with an aggregate carrying amount of RMB13,840,000 (2015: RMB8,326,000) were pledged as security for bank loans at 31 December 2016 (see note 23(iii)).

15 INTANGIBLE ASSETS

	Exclusive rights for operation of online games *RMB'000*	Product technology *RMB'000*	Non-compete agreement *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2016	–	–	–	–
Acquisitions through business combination *(note 28)*	6,800	700	2,700	10,200
At 31 December 2016	6,800	700	2,700	10,200
Accumulated amortisation:				
At 1 January 2016	–	–	–	–
Charge for the year	(1,133)	(146)	(161)	(1,440)
At 31 December 2016	(1,133)	(146)	(161)	(1,440)
Net book value:				
At 31 December 2016	5,667	554	2,539	8,760
At 31 December 2015	–	–	–	–

The amortisation charge for the year is included in "cost of sales" in the consolidated statement of profit or loss.

16 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	–
Acquisition through business combination *(note 28)*	**138,153**
At 31 December 2016	**138,153**
Accumulated impairment loss:	
At 1 January 2016	–
Impairment loss	–
At 31 December 2016	–
Net book value:	
At 31 December 2016	**138,153**
At 31 December 2015	–

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("**CGU**") identified according to operating segment as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Online games	**138,153**	–

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3%. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 38%. The discount rate used reflects specific risks relating to the relevant business.

17 INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	110,656	71,910
Work in progress	381,816	273,076
Finished goods	91,425	79,214
Others	519	454
	584,416	424,654

Provisions of RMB3,768,000 (2015: RMB12,739,000) were made against those inventories with net realisable value lower than carrying value as at 31 December 2016. Except for the above, none of the inventories as at 31 December 2016 were carried at net realisable value (2015: Nil).

Certain inventories with aggregate carrying amount of RMB255,670,000 were pledged as security for bank loans at 31 December 2016 (2015: RMB272,916,000) (see note 23(iii)).

18 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bill receivables	358,093	234,234
Deposits for metal future contracts	11,632	15,005
VAT recoverable	76,792	81,257
Prepayments	12,004	19,240
Others	2,582	14,993
	461,103	364,729

Credit terms granted to customers ranged from 7 to 90 days depending on the customer's relationship with the Group, its creditworthiness and past settlement record.

As at 31 December 2016, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, with an amount of RMB11,140,000 (2015: RMB7,866,000). In the opinion of the directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

18 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2016, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2016, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB12,803,000 (2015: RMB38,860,000).

(a) Ageing analysis

As at the end of reporting period, the ageing analysis of trade and bill receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Within 3 months	333,285	198,341
Over 3 months but less than 6 months	23,949	35,408
Over 6 months but less than 1 year	792	116
Over 1 year	67	369
	358,093	234,234

The Group's exposure to credit and currency risks is disclosed in note 29.

As at 31 December 2016, the Group's bill receivables with aggregate carrying value of approximately RMB70,023,000 (2015: RMB46,035,000) were pledged to banks for issuance of bank acceptance bills.

18 TRADE AND OTHER RECEIVABLES (Continued)

(b) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**350,465**	219,088
Less than 3 months past due	**6,769**	14,662
Over 3 months past due	**859**	484
	7,628	15,146
	358,093	234,234

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers for whom there is no recent history of default. Based on past experience in collection of trade receivables from customers, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of customers and the balances are still considered fully recoverable.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	2016 RMB'000	2015 RMB'000
Derivative financial assets			
Metal future contracts	*(i)*	1,461	–
Foreign exchange forward contracts	*(ii)*	2,843	830
		4,304	830
Derivative financial liabilities			
Metal future contracts	*(i)*	(4,898)	(1,711)
Interests rate swap		(51)	–
		(4,949)	(1,711)

(i) Metal future contracts

The notional contract value and the related terms of metal future contracts are summarised as follows:

	2016	2015
Sales contracts		
Volume *(tonne)*	2,545	1,560
Notional contract value *(RMB'000)*	101,962	55,825
Market value *(RMB'000)*	(105,469)	(56,962)
Fair value (RMB'000)	(3,507)	(1,137)
Purchase contracts		
Volume *(tonne)*	700	1,200
Notional contract value *(RMB'000)*	(26,691)	(58,658)
Market value *(RMB'000)*	26,761	58,084
Fair value *(RMB'000)*	70	(574)
Total *(RMB'000)*	(3,437)	(1,711)
Contract maturity date	February, March and April 2017	January, February and March 2016

19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(i) Metal future contracts (Continued)

The market value of metal future contracts is based on quoted market prices at the reporting date. As at 31 December 2016, unrealised change in fair value on the outstanding commodity future contracts was RMB3,437,000 (2015: RMB1,711,000), and net realised and unrealised gains, in aggregate, of RMB6,152,000 (2015: RMB19,678,000) were recognised for the year ended 31 December 2016.

(ii) Foreign exchange forward contracts

The Group purchased foreign exchange forward contracts to hedge its foreign currency exchange rate fluctuation starting from September 2015. The market value of these contracts are based on quoted market prices at the reporting date. As at 31 December 2016, unrealised change in fair value on the outstanding foreign exchange forward contracts was RMB2,843,000, and net unrealised gains of RMB2,013,000 were recognised for the year ended 31 December 2016 (2015: RMB830,000).

20 PLEDGED BANK DEPOSITS

Pledged bank deposits represented:

	2016 *RMB'000*	2015 *RMB'000*
Guarantee deposits for issuance of commercial bills and banking facilities	49,570	33,298

21 CASH AND CASH EQUIVALENTS

All the balances of cash and cash equivalents at the end of the reporting period comprise cash at banks and on hand.

22 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade and bill payables	**652,903**	430,279
Advances received from customers	**37,288**	35,506
Staff benefits payable	**23,225**	14,927
Payables for purchase of property, plant and equipment	**55,839**	56,073
Cash consideration payable in connection with business combination *(note 28)*	**16,638**	–
Contingent share consideration payable *(note 28)*	**15,952**	–
Accrued expenses and others	**27,747**	9,078
	829,592	545,863

As of the end of the reporting period, the ageing analysis of trade and bill payables (which is included in trade and other payables), based on the invoice date or issuing date, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**473,412**	361,791
Over 3 months but within 6 months	**150,283**	64,575
Over 6 months but within 1 year	**27,037**	946
Over 1 year	**2,171**	2,967
	652,903	430,279

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 29.

23 INTEREST-BEARING BORROWINGS

At 31 December 2016, the interest-bearing borrowings were repayable based on scheduled repayment dates set out in the loan agreements as follows:

	2016	2015
	RMB'000	*RMB'000*
Current		
Short-term secured bank loans	**172,700**	332,500
Unsecured bank loans	**200,803**	78,584
Bank advances under discounted bills	**20,000**	42,850
Current portion of non-current secured bank loans	**228,768**	33,728
	622,271	487,662
Non-current		
Secured bank loans	**80,000**	336,710
	702,271	824,372

(i) The Group's long-term bank loans were repayable as follow

	2016	2015
	RMB'000	*RMB'000*
Within 1 year	**228,768**	33,728
Over 1 year but less than 2 years	**–**	236,710
Over 2 years but less than 5 years	**80,000**	100,000
	80,000	336,710
	308,768	370,438

(ii) The Group's interest-bearing borrowings in the amount of RMB80,000,000 (2015: RMB100,000,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the year ended 31 December 2016, none of these covenants relating to drawn down facilities was breached.

23 INTEREST-BEARING BORROWINGS (Continued)

(iii) The secured bank loans as at 31 December 2016 bore interest at rates ranging from 1.28% to 6.72% (2015: 1.02% to 8.4%) per annum and were pledged by the following assets:

	2016	2015
	RMB'000	*RMB'000*
Carrying amounts of assets:		
Inventories	**255,670**	272,916
Property, plant and equipment	**897,591**	686,926
Lease prepayments	**13,840**	8,326
	1,167,101	968,168

(iv) Unsecured bank loans as at 31 December 2016 bore interest at rates ranging from 1.28% to 4.57% (2015: 1.02% to 1.17%) per annum.

24 DEFERRED INCOME

	2016	2015
	RMB'000	*RMB'000*
Government grants	**48,725**	50,721
Others	**724**	–
	49,449	50,721

All government grants received by the Group towards the cost of construction and improvement of production line and other facilities, are recognised as deferred income initially, and amortised over the useful lives of the relevant assets.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Share-based compensation reserve RMB'000	Contributed surplus RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015		64,881	227,978	(42,020)	349	407,248	24,225	682,661
Changes in equity for 2015:								
Loss for the year		–	–	–	–	–	(3,315)	(3,315)
Other comprehensive income		–	–	21,512	–	–	–	21,512
Total comprehensive income		–	–	21,512	–	–	(3,315)	18,197
Share options exercised	*25(b)&(c)*	135	628	–	(49)	–	–	714
Share options lapsed	*25(c)(vi)*	–	–	–	(300)	–	300	–
Issuance of new shares	*25(b)&(c)*	8,671	66,645	–	–	–	–	75,316
At 31 December 2015		73,687	295,251	(20,508)	–	407,248	21,210	776,888

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

The Company (Continued)

	Share capital *RMB'000*	Share premium *RMB'000*	Translation reserve *RMB'000*	Contributed surplus *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2016	73,687	295,251	(20,508)	407,248	21,210	776,888
Changes in equity for 2016:						
Profit for the year	–	–	–	–	60,901	60,901
Other comprehensive income	–	–	26,985	–	–	26,985
Total comprehensive income	–	–	26,985	–	60,901	87,886
At 31 December 2016	73,687	295,251	6,477	407,248	82,111	864,774

(b) Share capital

Authorised

	2016		2015	
	Number of shares	Amount *HKD'000*	Number of shares	Amount *HKD'000*
Ordinary shares of HKD0.1 each	5,000,000,000	500,000	5,000,000,000	500,000

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

Ordinary shares issued and fully paid

	2016			2015		
	Number of shares *'000*	Amount *HKD'000*	Equivalent *RMB'000*	Number of shares *'000*	Amount *HKD'000*	Equivalent *RMB'000*
At 1 January	**811,116**	**81,111**	**73,687**	699,502	69,950	64,881
Share options exercised	**–**	**–**	**–**	1,700	170	135
Shares issued	**–**	**–**	**–**	109,914	10,991	8,671
At 31 December	**811,116**	**81,111**	**73,687**	811,116	81,111	73,687

(i) On 31 March 2015, 1,700,000 share options under a share option scheme were exercised at an exercise price of HKD0.53 per share. The proceeds of HKD170,000 (equivalent to RMB135,000) representing the par value, were credited to the Company's share capital. The excess of proceeds totalling HKD731,000 (equivalent to RMB579,000) were credited to reserves.

(ii) On 3 July 2015, 109,914,000 ordinary shares of HKD0.10 each in the Company were issued to independent investors at HKD0.88 per share pursuant to a placing agreement. The proceeds of HKD10,991,400 (equivalent to RMB8,671,000) representing the par value, were credited to the Company's share capital. The excess of proceeds totalling HKD85,732,920 (equivalent to RMB67,640,000) over the par value of ordinary shares issued, before share issuance expenses, were credited to reserves.

(c) Reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands.

(ii) Contributed surplus

Contributed surplus represents the excess of the fair value of the shares of Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**") determined on the basis of the consolidated net assets of Xingye Copper (HK) at the date of the reorganisation over the nominal value of the shares issued by the Company in exchange thereof.

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(iii) Distributability of reserves

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The aggregate amount of distributable reserves of the Company as at 31 December 2016 was RMB377,362,000 (2015: RMB316,461,000)

(iv) Capital reserve

Capital reserve represents the excess of the aggregate of the share capital of the subsidiaries acquired and the equity of a predecessor entity with its business transferred to the Group pursuant to the reorganisation, amounting to RMB259,726,000, over the consideration paid by the Company of HKD1,000 (equivalent to RMB968), representing the nominal value of the shares issued by the Company in exchange thereof.

(v) PRC statutory reserves

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the Articles of Association of the companies comprising the Group which are established in the PRC. Appropriations to the reserves were approved by the respective boards of directors.

For the entities concerned, statutory surplus reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

(vi) Share-based compensation reserve

Share-based compensation reserve represents value of employee services in respect of share options granted under the Share Option Scheme. All outstanding share options under the Share Option Scheme lapsed on 31 March 2015. Thereon, the remaining share-based compensation reserve was transferred to retained earnings.

25 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(vii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholders' return that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt. The Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to shareholders or sell assets to reduce debt.

The gearing ratio as at 31 December is as follows:

	2016	2015
	RMB'000	*RMB'000*
Gearing ratio	**38.33%**	44.10%

(d) Dividends

No final dividend was declared to equity shareholders of the Company for the years ended 31 December 2015 and 2016.

26 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 *RMB'000*	2015 *RMB'000*
Non-current asset		
Investments in subsidiaries *(note 27)*	413,327	407,249
Amounts due from subsidiaries	68,533	–
Interests in subsidiaries	481,860	407,249
Current assets		
Amounts due from subsidiaries	366,602	363,697
Other receivables	8	–
Cash and cash equivalents	17,200	6,054
	383,810	369,751
Current liabilities		
Other payables	513	112
	513	112
Net current assets	383,297	369,639
Net assets	865,157	776,888
Capital and reserves		
Share capital *(note 25(b))*	73,687	73,687
Reserves	791,470	703,201
Total equity	865,157	776,888

27 INVESTMENTS IN SUBSIDIARIES

(a) Subsidiaries

All of the following entities are subsidiaries as defined under note 2(d) and have been consolidated into the Group's financial statements. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
Xingye Copper International (BVI) Limited ("**Xingye Copper (BVI)**")	British Virgin Islands, July 2007	100%	–	USD1/USD1	Investment holding
Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**")	Hong Kong SAR, July 2007	–	100%	HKD4,000,000/ HKD4,000,000	Investment holding and trading of high precision copper plates and strips
Xingye Investment Limited ("**Xingye Investment**")	Hong Kong SAR, October 2009	100%	–	HKD1/HKD1	Investment holding
Ningbo Xingye Shengtai Group Ltd. (formerly known as Ningbo Xingye Shengtai Electronic Metal Materials Co., Ltd.) ("**Shengtai Group**") 寧波興業盛泰集團有限公司	The PRC, November 2001	–	97.8%	RMB683,831,053/ RMB700,000,000	Manufacture and sale of high precision copper plates and strips
Yingtan Xingye Electronic Metal Materials Co., Ltd. ("**Yingtan Xingye**") 鷹潭興業電子金屬材料有限公司	The PRC, November 2006	–	100%	RMB95,000,000/ RMB95,000,000	Manufacture and sale of high precision copper plates and strips
Ningbo Litai Alloy Materials Co., Ltd. ("**Ningbo Litai**") 寧波立泰合金材料有限公司	The PRC, August 2007	–	100%	RMB3,890,000/ RMB3,890,000	Trading of high precision copper plates and strips
Ningbo Xinglie Trade Co., Ltd. ("**Xinglie**") 寧波興烈貿易有限公司	The PRC, May 2014	–	100%	RMB8,000,000/ RMB21,000,000	Purchase of raw materials
Ningbo Hangzhou Bay New Zone Qiangtai Metal Materials Co., Ltd. ("**Qiangtai**") 寧波杭州灣新區強泰金屬材料有限公司	The PRC, May 2010	–	100%	RMB4,395,250/ RMB4,395,250	Trading of high precision copper plates and strips

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
Sichuan Xingtong Metal Materials Co., Ltd. ("**Sichuan Xingtong**") 四川興銅金屬材料有限公司	The PRC, August 2010	–	51%	RMB5,000,000/ RMB5,000,000	Manufacture and sale of high precision copper plates and strips
Ningbo Xingye Xintai New Metal Materials Co., Ltd. ("**Ningbo Xintai**") 寧波興業鑫泰電子金屬材料有限公司	The PRC, March 2011	–	100%	RMB200,000,000/ RMB200,000,000	Manufacture and sale of high precision copper plates and strips
Ningbo Xinghong Property Service Co., Ltd ("**Xinghong**") 寧波興宏物業服務有限公司	The PRC, November 2015	–	100%	RMB1,000,000/ RMB1,000,000	Property services
Xingye Investment Holdings (HK) Limited ("**Investment (HK)**")	Hong Kong SAR, August 2015	–	100%	HKD1/HKD1	Investment holding
Xingye Investment Holdings Limited ("**Investment**")	British Virgin Islands, June 2015	–	100%	USD1/USD1	Investment holding
Funnytime Limited ("**Funnytime**")	British Virgin Islands, October 2015	–	100%	USD0/USD1,000	Investment holding
Soul Dargon Limited	Hong Kong SAR, October 2015	–	100%	HKD0/HKD1	Investment holding
Hefei Yueyou Network Technology Co.,Ltd. ("**Yueyou**") 合肥悅遊網絡科技有限公司	The PRC, January 2016	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games
Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") *(note (b))* 合肥掌悅網絡科技有限公司	The PRC, July 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games
Shenzhen Zhangyue Network Technology Co., Ltd. *(note (b))* 深圳掌悅網絡科技有限公司	The PRC, August 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games

i) The English translation of the names of the companies registered in the PRC above is for reference only. The official names of these companies are in Chinese.

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Entities controlled through contractual arrangements

The Group's online games business acquired in August 2016 (note 28) is carried out through several domestic operating companies, incorporated in the PRC, namely Hefei Zhangyue Network Technology Co., Ltd. and Shenzhen Zhangyue Network Technology Co., Ltd., which are collectively defined as the "PRC Operating Entities" hereafter.

Pursuant to applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services or holding an equity interest in an entity conducting such services in China. In order to enable the Company to acquire the online games business through its overseas incorporated subsidiaries, a wholly foreign owned enterprise, Yueyou, was incorporated in the PRC in January 2016 by Funnytime, the then target company.

Yueyou has entered into a series of contractual arrangements (the "**Contractual Arrangements**") with the PRC Operating Entities and their respective equity holders, which enable Yueyou to:

– exercise effective financial and operational control over the PRC Operating Entities;

– exercise equity holders' voting rights of the PRC Operating Entities;

– receive substantially all of the economic interest returns generated by the PRC Operating Entities in consideration for the business support, technical and consulting services provided by Yueyou, at Yueyou's discretion;

– obtain an irrevocable and exclusive right with an initial period of 10 years to purchase the entire equity interest in the PRC Operating Entities from the respective equity holders. This right automatically renews upon expiry until Yueyou specifies a renewal term;

– obtain a pledge over the entire equity interest of the PRC Operating Entities from their respective equity holders as collateral security for all of the PRC Operating Entities' payments due to Yueyou and to secure performance of PRC Operating Entities' obligations under the Contractual Arrangements.

As a result of the Contractual Arrangements, after the acquisition of Funnytime, the Company has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is considered to control the PRC Operating Entities. Consequently, the Company regards the PRC Operating Entities as consolidated structured entities under International Financial Reporting Standards ("**IFRSs**"). The Group has included the financial position and results of the PRC Operating Entities in the consolidated financial statements since the acquisition date.

Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities. However, the Company believes that the Contractual Arrangements are in compliance with relevant PRC laws and regulations and are legally enforceable.

27 INVESTMENTS IN SUBSIDIARIES (Continued)

(c) A trust for the Share Award Scheme (the "**Trust**")

On 18 April 2016, the Company adopted a share award scheme (the "**Share Award Scheme**"), which does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, to recognise and reward the contribution of eligible employees to the growth and development of the Group through an award of the Company's shares.

The Company has appointed a trustee for administration of the Share Award Scheme (the "**Trustee**"). The principal activity of the Trustee is administrating and holding the Company's shares for the Share Award Scheme for the benefit of the Company's eligible employees. Pursuant to the Share Award Scheme, the Company's shares will be purchased by the Trustee in the market out of cash contributed by the Company and held in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of the Company's shares held by the Trustee under the Share Award Scheme will not exceed 20% of the total issued shares of the Company at any time.

As the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the contributions of the employees who have been awarded the shares of the Company (the "**Awarded Shares**") through their continued employment with the Group, the Group is required to consolidate the Trust.

As at 31 December 2016, the Company had contributed RMB6,078,000 to the Trust and the amount was recorded as "Investment in subsidiaries" in the Company's statement of financial position.

As at 31 December 2016, the Trustee had purchased 4,021,000 shares of the Company at a total cost (including related transaction costs) of RMB3,256,000. No shares had been awarded to eligible employees as of 31 December 2016 under the Share Award Scheme.

28 ACQUISITION OF SUBSIDIARIES

On 5 August 2016 ("**the Acquisition Date**"), the Group obtained control of Funnytime and its subsidiaries (collectively, the "**Target Group**") by acquiring 100% of the shares and voting interest in Funnytime. The Target Group is principally engaged in developing, publishing and operating internet and mobile games products.

Acquisition of internet and mobile games business diversifies the Group's existing business portfolio, reduces the overall risk profile, and broadens the source of income of the Group.

The post-acquisition revenue and net profit that the Target Group contributed to the Group during the year ended 31 December 2016 are RMB16,596,000 and RMB6,162,000, respectively. Had the acquisition occurred on 1 January 2016, management estimates that the Group's consolidated revenue and consolidated profit for the year ended 31 December 2016 would have been RMB3,453,355,000 and RMB99,537,000, respectively. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the above acquisition would have been the same if the acquisition had occurred on 1 January 2016.

The total consideration payable by the Group comprises fixed cash consideration of HKD97,400,000 (equivalent to RMB83,649,000) and contingent consideration to be settled in the form of cash and newly issued ordinary shares of the Company depending on achievement of the Target Group's adjusted net profit for each performance year from 2016 to 2018 (as defined by the sale and purchase agreement dated 21 June 2016 in relation to the acquisition of Funnytime by the Group ("**Sale and Purchase Agreement**"), which are payable within three years. The fair value of the contingent consideration payable at the Acquisition Date was estimated to be HKD87,985,000 (equivalent to RMB75,563,000) (including contingent cash consideration of HKD15,574,000 (equivalent to RMB13,375,000) and contingent share consideration of HKD72,411,000 (equivalent to RMB62,188,000)). At 31 December 2016, the performance target for contingent cash consideration was achieved, thus the cash consideration of HKD18,600,000 (equivalent to RMB16,638,000) was recognised in trade and other payables as at 31 December 2016 (note 22), with the fair value increase of HKD3,026,000 (equivalent to RMB2,590,000) recognised in finance income (note 7(a)).The fair value of contingent share consideration had decreased to HKD69,362,000 (equivalent to RMB62,045,000), with the fair value decrease of HKD3,049,000 (equivalent to RMB2,609,000) recognised in finance income (note 7(a)). Contingent consideration payable of RMB15,952,000 is included in trade and other payables (note 22) and RMB46,093,000 is included in non-current contingent consideration payable, respectively, in the Group's consolidated statement of financial position as at 31 December 2016.

The Group incurred acquisition-related costs of RMB2,391,000 related to legal fees and due diligence costs. These costs are included in "administrative expenses".

28 ACQUISITION OF SUBSIDIARIES (Continued)

Details of the fair value of net identified assets acquired are as follows:

	Pre-acquisition carrying amount *RMB'000*	Fair value adjustment *RMB'000*	Recognised values on acquisition *RMB'000*
Property, plant and equipment *(note 13)*	155	–	155
Intangible assets *(note 15)*	–	10,200	10,200
Trade and other receivables	13,389	–	13,389
Cash and cash equivalents	1,141	–	1,141
Trade and other payables	(1,276)	–	(1,276)
Deferred tax liabilities *(note 8(c))*	–	(2,550)	(2,550)
Net identifiable assets	13,409	7,650	21,059
Goodwill *(note 16)*			138,153
Total consideration			159,212
Satisfied by			
Fixed cash consideration			83,649
Fair value of contingent cash and share consideration			75,563
			159,212
Analysis of the net cash outflow in respect of the acquisition			
Cash consideration paid			83,649
Less: cash acquired			1,141
Net cash outflow in acquisition			82,508

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values.

Goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the Target Group's workforce. None of the goodwill recognised is expected to be deductible for tax purposes.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency risks and commodity price risk arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 7 to 90 days from the date of billing. Debtors with balances that are more than the credit term given by the Group are generally requested to settle all outstanding balances before any further credit is granted. In order to mitigate credit risk, the Group purchased credit insurance from an insurance company for the trade receivables of major customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 16% (2015: 16%) and 33% (2015: 39%) of the total trade receivables was due from the Group's largest customer and five largest customers respectively.

The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with any lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	2016 Contractual undiscounted cash outflows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	642,670	5,136	87,620	–	735,426	702,271
Trade and other payables (excluding contingent share consideration)	813,640	–	–	–	813,640	813,640
	1,456,310	5,136	87,620	–	1,549,066	1,515,911

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

	2015 Contractual undiscounted cash outflows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	517,606	252,344	115,904	–	885,854	824,372
Trade and other payables	545,863	–	–	–	545,863	545,863
	1,063,469	252,344	115,904	–	1,431,717	1,370,235

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. Changes in exchange rate affect the RMB value of sales proceeds of product, payment of liabilities for purchase and settlement of loans that are denominated in foreign currencies.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(i) ***Currency risk*** (Continued)

Exposure to currency risk

The following table details the Group's exposures at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group used foreign exchange forward contracts to hedge its currency risk. All of the forward contracts have maturities of less than one year after the end of the reporting period.

	2016				2015			
	United Stated Dollars	Hong Kong Dollars	Euros	Japanese Yen	United Stated Dollars	Hong Kong Dollars	Euros	Japanese Yen
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	24,925	–	9	45	31,641	2	8,443	1,367
Cash and cash equivalents	38,490	–	–	–	76,939	7,255	–	–
Interest-bearing borrowings	(107,991)	–	–	–	(110,857)	–	–	–
Trade and other payables	(303,549)	–	(11,340)	(3,307)	(237,696)	(166)	(14,175)	(2,038)
Gross exposure arising from recognised assets and liabilities	(348,125)	–	(11,331)	(3,262)	(239,973)	7,091	(5,732)	(671)
Notional amounts of foreign exchange forward contracts used as economic hedges	226,077	–	–	–	97,404	–	–	–
Net exposure arising from recognised assets and liabilities	(122,048)	–	(11,331)	(3,262)	(142,569)	7,091	(5,732)	(671)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(i) ***Currency risk*** (Continued)

Exposure to currency risk (Continued)

The following exchange rates were applied at the reporting date:

	Rate at reporting date	
	2016	2015
USD1	**6.9370**	6.4936
HKD1	**0.8945**	0.8378
EUR1	**7.3068**	7.0952
JPY1	**0.0596**	0.0539

Sensitivity analysis

A 5 percent strengthening of the RMB against the following currencies at 31 December 2016 would have changed profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

	2016	2015
	RMB'000	*RMB'000*
Effect on profit after tax and equity (increase/(decrease))		
USD	**4,655**	5,329
HKD	**–**	(266)
EUR	**467**	177
JPY	**132**	25

A 5 percent weakening of the RMB against the above currencies at 31 December 2016 would have had the equal but opposite effect on the amounts shown above, on the basis that all other variables remain constant.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings.

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows.

	2016	2015
	RMB'000	*RMB'000*
Fixed rate borrowings	**491,003**	571,434
Variable rate borrowings	**211,268**	252,938
	702,271	824,372

Fair value sensitivity analysis for fixed rate borrowings

The Group does not account for any fixed-rate financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate borrowings

As at 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax for the year and consolidated equity by approximately RMB1,354,000 (2015: RMB1,721,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and consolidated equity that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied to re-measure those floating rate non-derivative instruments held by the Group which expose the Group to cash flow interest rate risk at the reporting date. The impact on the Group's profit after tax and consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2015.

(iii) Commodity price risk

The Group uses future contracts traded on the Shanghai Futures Exchange and London Metal Exchange to hedge against price fluctuations of raw materials, mainly copper. The future contracts are marked to market at the reporting date and the corresponding unrealised holding gains/losses are recorded in profit or loss. For the details of the exposure of future contracts, please refer to note 19.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Foreign exchange forward contracts	2,843	2,843	–	–
– Future contracts	1,461	1,461	–	–
Liabilities:				
Derivative financial instruments:				
– Future contracts	(4,898)	(4,898)	–	–
– Interest rate swap	(51)	(51)	–	–
Contingent consideration payable				
– Current	(15,952)	–	–	(15,952)
– Non-current	(46,093)	–	–	(46,093)

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurement (Continued)

(i) ***Financial assets and liabilities measured at fair value*** (Continued)

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Foreign exchange forward contracts	830	830	–	–
Available-for-sale investment	9,000	–	9,000	–
Liabilities:				
Derivative financial instrument:				
– Future contracts	(1,711)	(1,711)	–	–

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) ***Fair values of financial instruments carried at other than fair value***

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at the end of the reporting period.

30 COMMITMENTS

(a) Capital commitments

Capital commitments in respect of acquisition of property, plant and equipment at the end of the reporting period not provided for in the consolidated financial statements were as follows:

	2016	2015
	RMB'000	*RMB'000*
Contracted for	**8,122**	40,547

(b) Operating lease commitments

Non-cancellable operating lease rentals in respect of staff dormitory and office building were payable as follows:

	2016	2015
	RMB'000	*RMB'000*
Less than 1 year	**1,699**	665
Over 1 year but less than 5 years	**1,173**	1,059
	2,872	1,724

31 RELATED PARTY TRANSACTIONS

Key management personal remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Short-term employee benefits	**5,058**	4,585
Post-employee benefits	**43**	42
	5,101	4,627

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2016, the directors consider the immediate and ultimate controlling parties of the Group to be various parties including 3 entities and 6 individuals. These entities do not produce financial statements available for public use.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, Income taxes: *Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, Share-based payment: *Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified certain aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 9, Financial instruments (Continued)

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group is in the process of assessing whether this new requirement would have impact on the measurement for the financial liability designated at FVTPL, once IFRS 9 is adopted.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected:

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(a) *Timing of revenue recognition*

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 for some of the Group's contracts, the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) *Significant financing component*

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

The Group is in the process of assessing whether this component in the Group's advance payment schemes would be significant to the contract and therefore whether, once IFRS 15 is adopted, the transaction price would need to be adjusted for the purposes of recognising revenue.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(c) Sales with a right of return

Currently when the customers are allowed to return the products, the Group estimates the level of returns and makes an adjustment against revenue and cost of sales.

The Group expects that the adoption of IFRS 15 will not materially affect how the Group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the Group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

IFRS 16, Leases

As disclosed in note 2(l), currently the Group classifies leases into operating leases and accounts for the lease arrangements according to the nature of the lease. The Group enters into leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 30(b), at 31 December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB2,872,000 for properties, some of which is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.

Five Years Financial Summary

RESULTS

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	3,435,511	2,942,663	3,370,976	3,603,600	3,229,126
Gross profit	552,532	258,328	269,437	217,472	147,671
Profit attributable to equity shareholders of the Company	84,805	18,848	18,753	8,998	32,411

EARNINGS PER SHARE

	2016	2015	2014	2013	2012
Basic earnings per share[(1)] *(RMB)*	0.10	0.02	0.03	0.01	0.05
Diluted earnings per share[(1)] *(RMB)*	0.10	0.02	0.03	0.01	0.05

ASSETS, LIABILITIES AND EQUITY

	2016 RMB'000	2015 RMB'000	2014 RMB'000 (Restated)	2013 RMB'000	2012 RMB'000
Non-current assets	1,288,991	1,191,086	1,126,052	877,265	750,249
Current assets	1,268,335	1,042,426	1,322,165	1,092,511	1,150,905
Total assets	2,557,326	2,233,512	2,448,217	1,969,776	1,901,154
Non-current liabilities	190,783	394,483	340,235	47,392	31,295
Current liabilities	1,480,653	1,035,954	1,390,812	1,239,470	1,171,414
Total liabilities	1,671,436	1,430,437	1,731,047	1,286,862	1,202,709
Net current assets/(liabilities)	(212,318)	6,472	(68,647)	(146,959)	(20,509)
Total assets less current liabilities	1,076,673	1,197,558	1,057,405	730,306	729,740
Total equity attributable to equity shareholders of the Company	858,131	778,772	680,718	663,347	680,042
Non-controlling interests	27,759	24,303	36,452	19,567	18,403

Five Years Financial Summary

FINANCIAL RATIOS AND OTHER FINANCIAL INFORMATION

	2016	2015	2014 (Restated)	2013	2012
EBITDA *(RMB'000)*	**221,524**	128,913	125,702	117,172	154,902
Profitability ratios:					
Gross profit margin(2) *(%)*	**16.1%**	8.8%	8.0%	6.0%	4.6%
Operating profit margin(3) *(%)*	**4.7%**	2.5%	1.9%	1.8%	3.3%
Net profit margin(4) *(%)*	**2.5%**	0.6%	0.6%	0.3%	1.0%
EBITDA margin(5) *(%)*	**6.4%**	4.4%	3.7%	3.3%	4.7%
Rate of return on equity(6) *(%)*	**9.9%**	2.4%	2.8%	1.4%	4.8%
Liquidity ratios:					
Current ratio(7) *(times)*	**0.9**	1.0	1.0	0.9	1.0
Quick ratio(8) *(times)*	**0.5**	0.6	0.6	0.5	0.6
Inventory turnover(9) *(days)*	**42**	46	40	38	43
Trade receivable turnover(10) *(days)*	**31**	32	32	45	38
Trade payable turnover(11) *(days)*	**69**	58	46	45	44
Capital adequacy ratios:					
Gearing ratio(12) *(%)*	**38.3%**	44.1%	59.6%	52.7%	50.0%
Net gearing ratio(13) *(%)*	**56.4%**	74.6%	114.6%	95.7%	82.6%
Interest coverage ratio(14) *(times)*	**5.1**	2.4	2.8	2.4	3.1

Notes:

(1) The basis earnings per share and diluted earnings per share is equal to the profit attributable to equity shareholders of the Company divided by the weighted average number of ordinary share in issue during the year and weighted average number of ordinary share(diluted), respectively.

(2) Gross profit margin is equal to gross profit divided by turnover times 100%.

(3) Operating profit margin is equal to operating profit divided by turnover times 100%.

(4) Net profit margin is equal to profit attributable to equity shareholders of the Company divided by turnover times 100%.

(5) EBITDA margin is equal to EBITDA divided by turnover times 100%.

(6) Rate of return on equity is equal to profit attributable to equity shareholders of the Company divided by total equity attributable to equity shareholders of the Company times 100%.

(7) Current ratio is equal to current assets divided by current liabilities.

(8) Quick ratio is equal to current assets net of inventories divided by current liabilities.

(9) Inventory turnover is equal to the average of the beginning and ending inventory volume for the year divided by the sales volume times 365 days.

(10) Trade receivable turnover is equal to the average of the beginning and ending trade and bills receivables for the year divided by turnover times 365 days.

(11) Trade payable turnover is equal to the average of the beginning and ending trade and bills payable for the year divided by cost of sales times 365 days.

(12) Gearing ratio is equal to net debt (total interest-bearing borrowings less cash and cash equivalents) divided by total capital (equity attributable to equity shareholders of the Company plus net debt) times 100%.

(13) Net gearing ratio is equal to net debt net of pledged deposits divided by total equity attributable to equity shareholders of the Company times 100%.

(14) Interest coverage ratio is equal to EBITDA divided by interest expenses.