China Packaging Holdings Development Limited
中華包裝控股發展有限公司

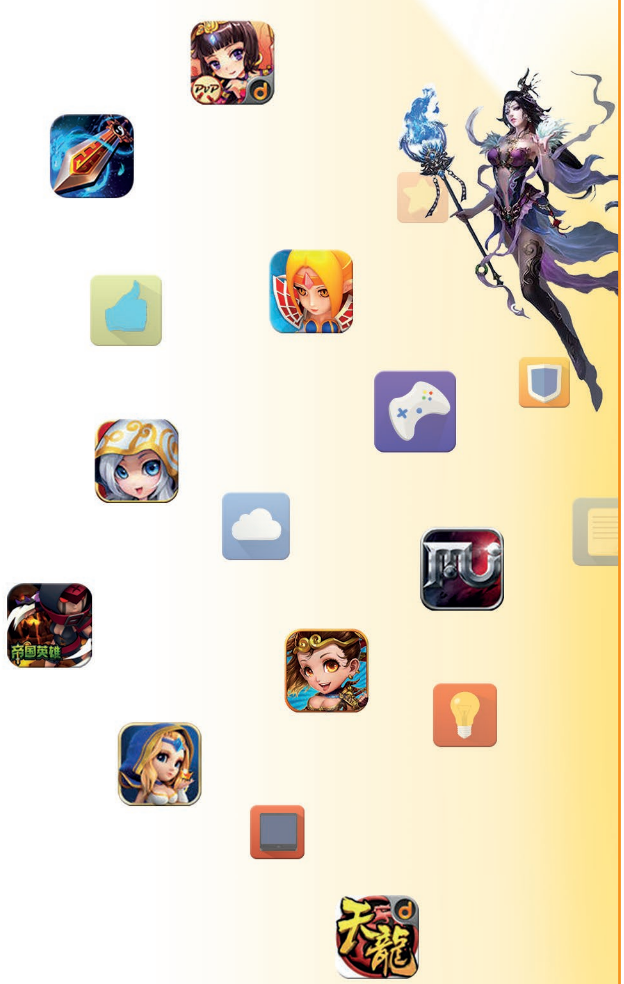
(Incorporated in the Cayman Islands with limited liability)

Stock Code:1439

ANNUAL REPORT **2016**

Contents

Corporate Profile



China Packaging Holdings Development Limited ("CPHD" or "The Company" or "The Group") is a leading innovator in packaging and mobile gaming. The Group has a vision to transform itself from traditional packaging business to be at the forefront of the rise of Chinese consumerism – mobile gaming. In 2016, the Group has successfully acquired Cable King Limited, a mobile game developer based in the silicon-valley of China, Xiamen. The Group is listed on the Hong Kong Stock Exchange with a stock code of 1439.

CPHD has a track record of delivering innovative and industry-leading products and will continue this culture after the acquisition of the mobile gaming business. Since its foundation in 2005 in Jiangxi, China, the Group has been innovating newer and ground-breaking products, even in a traditional industry such as paper packaging. The Group partnered with Wuhan University to develop its proprietary stone-paper packaging products that are environmentally friendly, ultra-durable, water and fire proof as well as easy to write on. With the rapid growth in China's consumerism and demand for consumer products increased, the Group has been delivering a stable and solid growth in its paper packaging business since then.

2016 has been a revolutionary year as the Group pioneered to enter the fast-growing mobile gaming business. The increased spending power of China's middle class, the popularity of smart phones coupled with fast 4G networks have enabled the Group to display explosive growth. The Group continues to innovate itself in segments that are fast-growing, revolutionary and game changing while maintain solid revenue from its packaging segment.

After the acquisition, CPHD has since then operated under two major business segments – the packaging segment based in Jiangxi, as well as the mobile gaming segment based in Xiamen.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Wei Wei *(Chairman)*
Mr. Sun Shao Hua
Ms. Zheng Li Fang

Independent Non-executive Directors

Mr. Liu Da Jin
Mr. Ma Yiu Ho, Peter
Mr. Wu Ping

BOARD COMMITTEES

Audit Committee

Mr. Ma Yiu Ho, Peter *(Chairman)*
Mr. Liu Da Jin
Mr. Wu Ping

Remuneration Committee

Mr. Liu Da Jin *(Chairman)*
Mr. Wu Ping
Mr. Sun Shao Hua

Nomination Committee

Mr. Chen Wei Wei *(Chairman)*
Mr. Liu Da Jin
Mr. Wu Ping

COMPANY SECRETARY

Mr. Hu Chung Ming (FCPA)

AUTHORISED REPRESENTATIVES

Mr. Sun Shao Hua
Mr. Hu Chung Ming

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISER

TC & Co.,

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Hong Sheng Industrial Park
Yichun City, Jiangxi Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office 2, 7th Floor
Wah Hing Commercial Building
283 Lockhart Road
Wanchai, Hong Kong

STOCK CODE

01439

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
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 BANKER

Agricultural Bank of China (Fengxin Sub-branch)
China Construction Bank (Fengxin Sub-branch)
China Merchants Bank

COMPANY'S WEBSITE

www.hs-pack.com

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chen Wei Wei (陳衛偉), aged 33, is our Chairman and Executive Director. He was appointed on 13 December 2013. He is also the chairman of the Nomination Committee. Mr. Chen is primarily responsible for the overall management, market and business development, product development, production and operation management of our Group. Mr. Chen has more than 11 years of experience in management, business development and operation of manufacturing industry. Mr. Chen joined our Group on 17 April 2009 as a deputy general manager and had been responsible for sales and research and development, and became the general manager of our Group on 1 July 2013. He graduated from both the Fuzhou Gongren Yeyu University (福州市工人業餘大學) and the Fujian Institute of Hydraulic and Electrical Engineering (福建水利電力學校) in July 2002, majoring in computer and information management and powerplant and electric power system respectively.

Ms. Zheng Li Fang (鄭麗芳), aged 32, was appointed as an Executive Director of our Company on 18 March 2016. She is responsible for overseeing the administration and human resources matters of our Group. Ms. Zheng graduated from the Fuzhou University (福州大學) with a Bachelor Degree in Enterprise Management in 2008. Prior to joining the Group, Ms. Zheng served as a general manager of the Xiamen Dahei Technology Co. Ltd. (廈門大黑科技有限公司) from 2013 to 2015. Before that, she served as an assistant president in the Gamewave Interactive (Xiamen) Technology Co. Ltd. (趣遊(廈門)科技有限公司) from 2009 to 2013.

Mr. Sun Shao Hua (孫少華), aged 45, is our founder and Executive Director. Mr. Sun is the spouse of Ms. Zheng Xue Xia (being a controlling shareholder of the Company). He was appointed on 13 December 2013. He is also a member of the Remuneration Committee. Mr. Sun is primarily responsible for the overall strategic planning and business development of our Group. Mr. Sun has approximately 15 years of experience in the packaging industry and corporate management. Mr. Sun established the business of our Group in 2006 and has been heading the Group since its incorporation. Mr. Sun was previously the standing director of the 7th China Packaging Federation Council (中國包裝聯合會第七屆理事會) in 2011. Mr. Sun was awarded the 5th Lake Poyang Printing Development Contribution Award (第五屆鄱陽湖(鴻聖)杯印刷發展貢獻獎) by the Association of Printing and Copying Industry in Jiangxi Province (江西省印刷複製業協會) in December 2011. Mr. Sun completed a postgraduate economics course at Jiangxi University of Finance and Economics (江西財經大學) in July 2005 and graduated from the Central Communist Party School Correspondence Institute (中共中央黨校函授學院) in December 2006, majoring in economic management. Mr. Sun completed the 2006 Chief Executive Course at Xiamen University School of Management in August 2007 and the GEM Financing and Private Fund Executive Course at Fudan University in April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Da Jin (劉大進), aged 51, was appointed as an Independent Non-executive Director on 13 December 2013. Mr. Liu is also a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee. Mr. Liu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since June 1996. He has also been the consultant of the Xiamen City Economic Management Consultancy Association (廈門市經濟管理諮詢協會) since August 2008 and the council member of the Xiamen City Accounting Association (廈門市會計學會) since March 2005. Mr. Liu graduated from the Central University of Finance and Economics (中央財經大學) (originally named Central Institute of Finance and Banking 中央財政金融學院) in June 1989, majoring in accounting. He then obtained a postgraduate certificate from the Xiamen University Postgraduate School in September 1992. Mr. Liu worked as a teaching assistant at Jimei Finance and Economics School (集美財經學校) from August 1984 to August 1987. Mr. Liu then served as the deputy director and instructor at the Department of Financial Management at Jimei College of Finance (集美財政專科學校) from July 1989 to August 1995. Mr. Liu worked as a certified accountant at the Xiamen Jiyou Accounting Firm (廈門集友會計師事務所) from June 1995 to May 1999. Mr. Liu worked in various faculties of the Jimei University (集美大學) since September 1995 and is currently the Dean of management department of Chengyi University College (誠毅學院).

Biographical Details of Directors and Senior Management

Mr. Ma Yiu Ho, Peter (馬遙豪), aged 52, was appointed as an Independent Non-executive Director on 13 December 2013. He is also the chairman of the Audit Committee. Mr. Ma is currently the financial controller of the Chyau Fwu Properties Limited, a company principally engaged in property development and hospitality. He has been a member of the Hong Kong Institute of Certified Public Accountants since February 1990 and a fellow member of the Association of Chartered Certified Accountants (UK) since April 1994. Mr. Ma obtained a Master Degree of Business Administration from the Hong Kong University of Science and Technology in November 1995. He is also a member of the Hong Kong Institute of Directors since December 2015. He has over 20 years of experience in the finance and accounting field and was the financial controller and company secretary of The Hong Kong Parkview Group Limited (now named as Joy City Property Limited, stock code: 207) and the financial controller of VODone Limited (now named as V1 Group Limited, stock code: 82), shares of these two companies are listed on the Stock Exchange. He had also served as the chief financial officer of Superior Fastening Technology Limited, a Singapore listed company. Mr. Ma had also worked for the Standard Chartered Equitor Trustee HK Limited and the Hong Kong Government's Audit Department. He was an independent non-executive director of the China Ocean Fishing Holdings Limited (formerly known as Sky Forever Supply Chain Management Group Limited) (stock code: 8047) from July 2014 to May 2015. Mr. Ma is currently and has been an independent non-executive director and chairman of the audit committee of Convoy Financial Holdings Limited (stock code: 1019) since March 2010, Huisheng International Holdings Limited (stock code: 1340) since February 2014 and TEM Holdings Limited (Stock code: 8346) since 20 April 2016 and Royal Catering Group Holdings Company Limited (stock code: 8300) since 21 July 2016. Shares of these five companies are listed on the Stock Exchange.

Mr. Wu Ping (吳平), aged 54, was appointed as an Independent Non-executive Director on 13 December 2013. He is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Wu completed a monetary banking correspondence course at the Jiangxi University of Finance and Economics (江西財經大學) in July 1998. Mr. Wu obtained an intermediate level of finance qualification granted by the Ministry of Personnel of the PRC in November 2000. Mr. Wu held various positions in the Yichun branch and Fengxin branch of the China Construction bank from 1981 to 2012, including serving as the manager of the Credit Approval Commission of the Yichun branch, the manager of the Credit Approval Department of the Fengxin branch and the branch manager of the Fengxin branch.

SENIOR MANAGEMENT

Mr. Lv Hanbing (呂寒冰), aged 35, joined the Group in April 2016 as the Chief Technical Officer. He is responsible for leading the game development team of the Group. In 2004, he graduated in the University of Electronic Science and Technology of China (電子科技大學) with a Bachelor Degree in Computer Science. He was appointed by Microsoft as the Honorable Community Star ("社區之星") and was qualified with Oracle and SCJP accreditation. He has over 10 years of experience in information technology industry.

Mr. Li Jian Jie (李建捷), aged 44, joined the Group in March 2013 as the Director of Research and Development. He is responsible for the research, development and design of the Group. In July 1993, he completed a 2-year arts programme at the Sanming Normal College (三明師範專科學校). He has over 9 years of experience in the design and advertising industry.

Mr. Hu Chung Ming (胡宗明), aged 44, joined the Group in August 2013 as the Chief Financial Officer and the Company Secretary of the Company. He is responsible for the planning and management of accounting, financial related matters and corporate reporting of the Group. In December 1996, he graduated in the University of Queensland, Australia, with a Bachelor Degree in Commerce. He is a member of the Australian Society of Certified Practising Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Company, he had served international audit firms for three years and listed companies as financial controller and company secretary for more than 11 years. He is currently an Independent Non-executive Director of Leyou Technologies Holdings Limited (formerly known as Sumpo Food Holdings Limited) (stock code: 1089), the shares of which are listed on the Stock Exchange.

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Packaging Holdings Development Limited (the "CPHD", "The Company"), I am delighted to share the annual results of the Company and its subsidiaries (collectively "The Group") for the year ended 31 December 2016.

BUSINESS REVIEW

I am pleased to report that the Company made significant progress in 2016. In April, the Group completed its acquisition of Cable King Limited, a business engaged in developing, distributing, and operating mobile gaming products in PRC. The acquisition has brought us a number of new initiatives, which includes two gaming platforms, a portfolio of mobile games and a highly experienced team in PRC. While maintaining the stability of the Company's packaging business, the Group now has a whole new focus to expand into the explosive mobile gaming market. According to games research and analytics from Newzoo, in 2016, China has already overtaken the U.S. in terms of global games revenue. Newzoo also predicted that by 2019, gaming revenue will reach USD28.9 billion in China, with mobile gaming accounting for USD13.9 billion. With more than half of the country yet to become regular internet users, the opportunity for growth in the mobile gaming industry is immense.

Our total revenue for the year ended 31 December 2016 increased from RMB615.4 million in 2015 to RMB868.6 million, representing an increase of 41.1%. The increase was mainly due to 8 months of revenue from the newly acquired mobile gaming business. Revenue from our packaging business increased to RMB647.7 million despite challenging market conditions. Our packaging sales volume increased from 206.2 million square meters to 207.7 million square meters. Overall gross profit reached RMB265.9 million, growing by an impressive 79.0% as compared to RMB148.5 million in 2015.

MOBILE GAMES BUSINESS

The mobile gaming industry in the PRC has some unique characteristics and we built our mobile games based on these characteristics to strengthen the popularity and stickiness of users to our proprietary developed games: (i) games based on local myths, or strong Chinese IPs that are more likely to attract interest and user downloads than those without; (ii) games based on classic stories or popular tales such as *Journey to the West* or *The Three Kingdoms*; Until today, Chinese TV dramas and PC games with themes from the 90s or these traditional tales regularly outperform the market in terms of revenue; (iii) Android is the dominant platform in the PRC mobile gaming industry. There are a large number of Android app stores and distribution platforms that are specially made for mobile games.

Looking ahead, apart from continuing to develop mobile games with Chinese medieval fantasy themes, we will create greater product differentiation and increase player engagement by strategically expanding into browser-based, massively multi-player online role-play games (MMORPG). We will continue to nurture and strengthen our core competencies and our development team. We constantly seek to improve quality and secure faster "go-to-market" lead times. Coupled with our insights and experiences built alongside as we are at the forefront of the mobile gaming market, we strive to continue to develop new, innovative and successful games in the years to come.

PACKAGING BUSINESS

In 2016, the PRC paper-based packaging industry had been challenging due to an increase in the price of raw paper. Despite this strong headwind, we were able to increase our revenue by 5.2% compared to 2015 thanks to our innovative stone-paper based packaging products. The stone-paper segment grew by 37.5% over the previous year due to an ever-increasing environmental awareness and concern, and an increase in the market acceptance of stone-paper based packaging products. Looking into the future, we will introduce stone-paper based packaging materials to the logistics industry, which has an abundant demand for packaging products.

To celebrate the success of biggest leap forward into the rapidly-expanding mobile gaming segment, the Board would like to reward shareholders with a special dividend. The Board would like to thank all shareholders who have been supportive in the past years and have witnessed the transformation of our business until its first fruition from a new segment which has already contributed to almost half of the Group's profit in merely 8 months' time. The Board recognized that this fruit should be rewarded to shareholders for their continued confidence in us. Therefore, the Board is exhilarated to declare a first-ever special dividend of 2.0 cents per share. This is an exciting moment for us and we would continue to innovate for the success of shareholders in the long run.

China Packaging Holdings Development Limited
Chen Wei Wei
Chairman and Executive Director

Jiangxi Province, the PRC, 30 March 2017

Financial and Operational Highlights

GROUP

- Revenue of RMB868.6 million for 2016, increased 41.1% YoY
- Gross profit of RMB265.9 million for 2016, increased 79.0% YoY
- Gross profit margin of 30.6% in 2016 (2015: 24.1%)
- Completed the acquisition of Cable King Limited in April 2016 and entered into a new era of both packaging and mobile gaming
- Solid balance sheet with cash and liquid investments of RMB374.3 million, an increase of 40.6% YoY
- Gearing ratio of 62.6%

PACKAGING

- Revenue of RMB647.7 million for 2016, increased 5.2% YoY
- Gross profit of RMB136.5 million for 2016, decreased 8.1% YoY, primarily due to a rise in raw paper costs
- Gross profit margin of 21.1% in 2016 (2015: 24.1%)

MOBILE GAMING

- Revenue of RMB220.9 million for 2016, which only accounts 8 months' revenue contribution since the acquisition of Cable King in April 2016
- Gross profit of RMB129.3 million for 2016 for 8 months' operations
- Gross profit margin of 58.5% in 2016 (2015: Nil)

DEVELOPMENT UPDATE

- The Group actively seeks merger and acquisition opportunities in growing sectors at a reasonable price aiming to create value for shareholders
- The Group continues to foster innovation within both the paper packaging segment as well as the mobile gaming segment
- The Group will enhance its production capability of the paper packaging segment to cater for the demand from sophisticated consumers
- The Group will continue to roll out pipelines for new mobile games, buy patents from well-known local movies and TV episodes, as well as expanding the monetization channels of existing mobile games

Corporate Governance Report

The Board is committed to maintaining a good standard of corporate governance practices and business ethics in the firm belief that they are essential for maintaining and promoting investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of shareholders and comply with the increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

The Company has adopted the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Board considers that up to the date of this annual report, in the opinion of the Board, save as deviation from code provision A.2.1 (see section "Chairman and Chief Executive" below), the Company has complied with the CG Code. The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the evolving regulatory requirements and to meet the rising expectations of the shareholders and other stakeholders.

CORPORATE GOVERNANCE PRACTICES

(A) Board of Directors

Responsibilities and Delegation

The Board is responsible for the leadership and control of the Company, overseeing the Group's businesses, strategic decisions, internal control, risk management systems and monitoring the performance of the senior management. The management is responsible for the daily operations of the Group under the leadership of the Chairman. The Directors have the responsibility to act objectively in the interests of the Company.

The Board has delegated various responsibilities to the Board committees including the Audit Committee, the Remuneration Committee and Nomination Committee. Further details of these Committees are set out below in section B of this corporate governance report.

Board Composition

The Board members during the year ended 31 December 2016 and up to the date of this report are as follows:

Executive Directors:

Mr. Chen Wei Wei	Chairman of the Board and Member of the Nomination Committee
Mr. Sun Shao Hua	Member of the Remuneration Committee
Ms. Zheng Li Fang	(appointed on 18 March 2016)
Ms. Hu Li Yu	(resigned on 18 March 2016)

Independent Non-Executive Directors:

Mr. Liu Da Jin	Chairman of the Remuneration Committee and Member of the Audit Committee and Nomination Committee
Mr. Wu Ping	Chairman of the Nomination Committee, Member of the Audit Committee and Remuneration Committee
Mr. Ma Yiu Ho, Peter	Chairman of the Audit Committee

The Board currently comprises three executive Directors and three independent non-executive Directors from different business and professional fields. The profiles of each Director are set out in the "Biographical Details of Directors and Senior Management" section in this annual report. The Directors, including the independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions.

The Board has adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the board.

The Company has received annual confirmation from each of the independent non-executive Directors of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operation and financial performance of the Group. Ad-hoc meetings will also be convened when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors.

Agenda and Board papers together with all appropriate, complete and reliable information will be provided to all the Directors before meetings. All the Directors will be provided with sufficient resources to discharge their duties, and, upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expenses. All Directors will have the opportunity to include matters in the agenda for board meetings. The company secretary of the Company is responsible to keep the minutes of board meetings and meetings of Board committees. All minutes are open for inspection by any Director at reasonable time on reasonable notice.

For the financial year ended 31 December 2016, four Board meetings were held.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest. According to current Board practices, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting.

Chairman and Chief Executive

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not separately have any officer with the title of "chief executive". Mr. Chen Wei Wei, the Chairman of the Group, is also responsible for the leadership and effective running of the Board, ensuring that all material issues are decided by the Board in a conducive manner. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and chief executive. The Board is of the view that this structure provides the Group with strong and consistent leadership, facilitates effective and efficient planning and implementation of business decisions and strategies, and ensures the generation of shareholders' benefits.

Appointments, Re-election and Removal of Directors

Each of the executive Directors (except Ms. Zheng) has renewed their service contract with the Company for a period of three years commencing 13 December 2016. Ms. Zheng Li Fang entered into a service contract with the Company for a period of three years commencing 18 March 2016. All of their appointments are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

Each of the independent non-executive Directors has been re-appointed for a term of three years commencing from 13 December 2016, and are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

The Nomination Committee has reviewed the re-appointments/appointments of both executive Directors and independent non-executive Directors and recommended to the Board for decision.

In accordance with the Company's Articles of Association, all Directors shall be subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. In accordance with the Articles of Association, Mr. Sun Shao Hua and Mr. Ma Yiu Ho, Peter will retire and, being eligible, will offer themselves for re-election at the forthcoming AGM of the Company.

Training Induction and Continuing Development of Directors

Directors keep abreast of responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Directors have provided to the Company their records of continuous professional development during the year ended 31 December 2016.

During the year ended 31 December 2016, all Directors have attended training courses and read articles and materials in relation to corporate governance, Listing Rules update or financial markets update arranged by professional firms/institutions. Besides, the company secretary also conducted briefings on corporate governance, directors' duties and responsibilities and provided materials for Listing Rules amendments to all Directors for their reference.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

When the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors in advance.

(B) Board Committees

The Board has established three committees, namely the Audit Committee, Nomination Committee and Remuneration Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and the Stock Exchange.

The majority of the members of each Board committee are independent non-executive Directors.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

Audit Committee

The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and provide material advice in respect of financial reporting and oversee the internal control procedures of the Company. The Audit Committee consists of three independent non-executive Directors, namely Mr. Ma Yiu Ho, Peter (Chairman), Mr. Liu Da Jin and Mr. Wu Ping. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The Audit Committee has reviewed the Company's financial statements and the Group's consolidated financial statements for the year ended 31 December 2016 and the interim financial statements for the six months ended 30 June 2016, including the accounting principles and practices adopted by the Company and the Group.

The Audit Committee held two meetings during the year ended 31 December 2016, of which both meetings with external auditors' presence, and all members of the Audit Committee attended the meetings. At the meetings, it reviewed the financial reporting and compliance procedures, the report of the internal auditor on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditors. No major issue on the internal control system of the Group has been identified.

The Company had established a whistleblowing policy and system for employees to raise concerns of possible improprieties where all concerns are addressed to the Audit Committee.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendation to the Board on the overall remuneration policy and structure relating to our Directors and senior management and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on their skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and the prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in their respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. The Remuneration Committee consists of two independent non-executive Directors, namely Mr. Liu Da Jin (Chairman) and Mr. Wu Ping and one executive Director, namely Mr. Sun Shao Hua.

For the year ended 31 December 2016, two meeting was held and all members attended the meeting.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to assess the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The Nomination Committee consists of two independent non-executive Directors, namely Mr. Liu Da Jin and Mr. Wu Ping and one executive director, namely Mr. Chen Wei Wei (Chairman).

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

The Nomination Committee held two meetings during the year ended 31 December 2016 and all members of the Committee attended the meeting.

The attendance of individual members of the Board and other Board Committees meetings for the financial year ended 31 December 2016 is set out in the table below:

	Meeting attended/held			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Chen Wei Wei	4/4	N/A	N/A	2/2
Sun Shao Hua	4/4	N/A	2/2	N/A
Zheng Li Fang (appointed on 18 March 2016)	4/4	N/A	N/A	N/A
Hu Li Yu (resigned on 18 March 2016)	0/4	N/A	N/A	N/A
Independent Non-executive Directors				
Liu Da Jin	4/4	2/2	2/2	2/2
Wu Ping	4/4	2/2	2/2	2/2
Ma Yiu Ho, Peter	4/4	2/2	N/A	N/A

(C) Accountability and Audit

Directors' Responsibility in respect of the Financial Statements

The Directors are responsible for overseeing the preparation of financial statements for the year ended 31 December 2016 with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and suitable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the financial statements are prepared on a going concern basis.

Management had provided monthly updates to Directors for giving a balanced and understandable assessment of the Company's performance, position and projects to enable the Directors to discharge their duties.

The Board is not aware of any material uncertainties relating to the events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Auditor's Remuneration

For the year ended 31 December 2016, the analysis of the remuneration payable to the external auditor of the Company, HLB Hodgson Impey Cheng Limited, in respect of audit services and non-audit services is set out below:

	Amount (RMB'000)
Audit services	**1,112**
Other services	**685**
Total	**1,797**

The Audit Committee will recommend the reappointment of HLB Hodgson Impey Cheng Limited for audit service, and consider the engagement of the non-audit services to ensure the independence and objectivity of audit service.

(D) Risk Management and Internal Controls

The Board has overall responsibility for the internal control and risk management systems of the Company. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, safeguard the investment of Shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and help the Board identify and mitigate, but not eliminate, risk exposure. The policies and procedures of internal controls (which include financial, operational and compliance controls) are considered to be adequate and effective based on the annual review conducted by the Board through the Audit Committee.

In light of the size and scale of the Group's businesses, the Group currently does not have an internal audit department. The Board will review and consider to establish such department as and when it thinks necessary. As such, the

Board, supported by the Audit Committee, is directly responsible for risk management and internal control systems of the Company and for reviewing its effectiveness. In order to maintain a high standard of corporate governance, the Company engaged an external independent consultant with professional staff in possession of relevant expertise to assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems. The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended in the report to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Company's control environment and processes. Based on the findings and recommendations of the report as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

(E) Company Secretary

The Board appoints its Company Secretary in accordance with the Company's Articles of Association and in compliance with the requirements of the Listing Rules. Biographical details of the current Company Secretary is set out in the section headed "Biographical Details of Directors and Senior Management" on pages 4 to 5 of this annual report. The Company Secretary has complied with the professional training requirement as set out in the Rule 3.29 of the Listing Rules during the year ended 31 December 2016.

(F) Shareholders' Rights

The Board welcomes shareholders to present their views and shareholders may at any time submit their questions and concerns about the Group. Enquiries may be put to the Board or senior management by contacting the Company Secretary through our shareholders' email at info@hs-pack.com or by phone at 852-3468 3666 or directly by raising questions at the general meeting of the Company. Shareholder(s) holding not less than one-tenth of Company's paid up capital may request the Board to convene an extraordinary general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office and addressing to the Company Secretary at the Company's principal place of business in Hong Kong. The extraordinary general meeting will be held within 2 months after the deposition of such requisition.

To safeguard shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

(G) Investor Relations and Communication with Shareholders

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. To promote effective communication, the Company maintains a website at http://www.hs-pack.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted.

The Company endeavours to maintain an on-going dialogue with its shareholders and in particular, through AGMs or other general meetings to communicate with the shareholders. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf.

The forthcoming AGM of the Company will be held on 31 May 2017. The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

Constitutional Documents

There was no change in the constitutional documents of the Company during the year. The latest version of the Memorandum and Articles of Association of the Company is posted on the Company's website.

BUSINESS REVIEW

The Group has successfully acquired the entire interest of Cable King Limited together with its subsidiaries (collectively referred to as "Cable King") which are engaged in the development, distribution and operation of mobile gaming products in the PRC on 27 April 2016. Cable King offers free-to-play mobile, browser and client-based online games. Apart from the newly acquired business, the Group continues to engage in manufacturing and sales of paper-based packaging products with operations in Jiangxi Province in the PRC. The Group's products include flexo-printed cartons and offset-printed cartons of different sizes, shapes and designs. They are generally used in packaging of a wide variety of products such as food and beverage, glass and ceramics articles, metal hardware, chemicals products and bamboo articles etc.

Mobile gaming business

China's gaming business soared at an explosive rate in 2016, with growth particularly seen in the mobile gaming segment. Mobile games have become the primary driver of growth in the electronic gaming business, and has outgrown the growth of PC games, browser games and client games. This tremendous growth was driven by various factors, in particular, the popularity of smart phones in China, the extensive growth 4G mobile phone network coverages across major cities, the demand for on-the-go entertainment by the rising middle class and an increase in the channels of distribution of mobile games which made mobile games easily accessible by the mass market.

After the acquisition in April 2016, the Group has continued to develop new games based on our strong technical and gaming development teams. After the successful launch of two major games in 2015, the *Legend of the Journey to the West*[1] (大聖傳說) and the *Heroes of the Imperial Empire*[2] (帝國英雄), the Group has also launched the *Legend of the Reign of the Assassins*[3] (劍雨傳說), a new game in trail mode since May 2016. The Legend of the Reign of the Assassins (劍雨傳說) has now been launched officially in March 2017. The Group has also been operating 2 online distribution platforms – "優戲網" (www.youc.com), specially designed for the distribution of our self-developed mobile games; and "萌樂網" (www.menle.com), specially designed for web games developed by third party developers. In addition to distributing the games under the Group's own branded online platforms, the Group has also cooperated with several famous platforms in China including 360, Baidu and Chuang Yu Wang Luo (創娛網絡) to extend the reach of our self-developed games to a wider audience. On the other hand, the Group also acted as the distributor of 7 other online games developed by third-party developers on a commission basis to help promoting and distributing their proprietary developed games.

Packaging business

Demand for packaging materials have been growing solidly from consumer industries such as food & beverages companies and department stores during the year. This is due to positive consumer confidence in spending; and thus, pushed up demand for packaging for these sectors.

A mere price competition in carton boxes would not be the Group's best strategy as more sophisticated Chinese consumers demand higher-end packaging materials for their products. The packaging of products constitutes a "good" or "bad" first impression before these products are consumed by final consumers, thereby having a well-printed, durable and presentable outlook could increase the price a product could charge to its consumers. As demand for sophisticated packaging increases, the Group's proprietary stone-paper packaging technology has been able to tap into this market. Stone paper, as its name, is made from stone. It is durable, wearable, environmentally-friendly and its water and fire proof properties have enabled stone paper packaging segment to outgrow traditional carton boxes in our portfolio of packaging materials. With years of packaging materials producing capability, the Group offers both traditional printed carton boxes to cope with demand from consumers at the lower end of the spectrum; as well as stone paper based boxes, to cater to the more sophisticated and environmentally-aware higher-end consumers.

1 Marketing name of *Legend of the Journey to the West* is Dashengchuanshuo (大聖傳說).
2 Marketing name of *Heroes of the Imperial Empire* is Diguoyingxiong (帝國英雄).
3 Marketing name of *Legend of the Reign of the Assassins* is Jianyuchuanshuo (劍雨傳說).

During the year ended 31 December 2016, the Group's revenue from packaging segment achieved a growth of 5.2% although the gross profit margin dropped 3.0% to 21.1% as compared to 2015. The decline in gross profit margin was mainly due to the increase in raw paper cost.

FINANCIAL REVIEW

The revenue for the year ended 31 December 2016 was approximately RMB868.6 million, representing an increase of approximately RMB253.2 million or approximately 41.1% as compared to that of approximately RMB615.4 million in 2015. The increase in revenue was attributable to (i) the contribution of mobile gaming business acquired on 27 April 2016; and (ii) the increase in sales volume of packaging products from approximately 206.2 million square meters to approximately 207.7 million square meters, which was driven by an increasing demand from existing customers and new orders placed by new customers.

The following table set out a breakdown of our revenue by product categories and their relative percentages of our total revenue during the year.

Revenue by products

	2016		2015	
	RMB'000	**% of Total**	RMB'000	% of Total
Flexo-printed cartons	**302,875**	**34.9**	329,046	53.5
Offset-printed cartons				
– Traditional paper-based cartons	**173,868**	**20.0**	161,961	26.3
– Stone-paper based cartons	**170,942**	**19.7**	124,365	20.2
Sub-total	**344,810**	**39.7**	286,326	46.5
Packaging segment	**647,685**	**74.6**	615,372	100.0
Mobile gaming segment	**220,908**	**25.4**	–	–
Total	**868,593**	**100.0**	615,372	100.0

Packaging segment

Flexo-printed cartons

The Group's flexo-printed carton segment targeted food and beverage companies as its main customers. The goal is to provide products of good quality, load capacity and protection capabilities. Revenue from sales of flexo-printed cartons for 2016 was approximately RMB302.9 million (2015: approximately RMB329.0 million), which accounted for 34.9% (2015: approximately 53.5%) of our total revenue. The decrease of approximately 8.0% was mainly because of our increase in average selling price in order to cater with our increased raw material cost.

Offset-printed cartons

The Group's offset-printed carton segment includes traditional paper based cartons and stone-paper based cartons. Revenue from sales of offset-printed cartons for the year ended 31 December 2016 was approximately RMB344.8 million (2015: approximately RMB286.3 million), which accounted for approximately 39.7% (2015: approximately 46.5%) of our total revenue. The increased in RMB58.5 million or approximately 20.4% was mainly due to the contribution from the increase in our sales of stone-paper based cartons and shopping bags. The acceptance of our stone-paper based materials and recognition of our superior quality of traditional offset-printed cartons have contributed to more orders placed by high-end customers in various industries. Sophisticated consumers demanded superior quality packaging in order to be willing to pay a higher price for the product they purchased.

Management Discussion and Analysis

Turnover by product categories of our customers (Packaging segment)

	2016 RMB'000	2016 % of Total	2015 RMB'000	2015 % of Total
Food and beverage	**237,297**	**36.6**	206,652	33.5
Glass and ceramics articles	**78,479**	**12.1**	71,212	11.6
Metal hardware and chemical products	**72,867**	**11.3**	90,549	14.8
Bamboo articles	**13,713**	**2.1**	44,836	7.3
Department stores	**109,309**	**16.9**	68,882	11.2
Others	**136,020**	**21.0**	133,241	21.6
Total	**647,685**	**100.0**	615,372	100.0

Note: Other products mainly include stationary, energy and electronic products, textile and pharmaceutical products.

The Group's main customers are manufacturers of food and beverage in the PRC. For the year ended 31 December 2016, revenue from food and beverage manufacturers was approximately RMB237.3 million (2015: RMB206.7 million), representing approximately 36.6% (2015: 33.5%) of the revenue of packaging segment.

The Group will continue to dedicate efforts in the research and development of new products, new materials and technological improvement to bring in further profits to the Group.

Mobile gaming segment

During the year ended 31 December 2016, revenue from mobile gaming segment was approximately RMB220.9 million (2015: nil), accounting for approximately 25.4% of the total revenue (2015: nil). The revenue contributed by the mobile gaming segment only accounted for 8 months' revenue since the acquisition of Cable King in April 2016.

Revenue by games (mobile gaming segment)

	2016 RMB'000	2016 % of Total	2015 RMB'000	2015 % of Total
Legend of the Journey to the West[1] (大聖傳說)	**112,437**	**50.9**	–	–
Heroes of the Imperial Empire[2] (帝國英雄)	**65,434**	**29.6**	–	–
Legend of the Reign of the Assassins[3] (劍雨傳說)	**28,840**	**13.1**	–	–
Others	**14,197**	**6.4**	–	–
Total	**220,908**	**100.0**	–	–

Note: Others represent the commission received from the distribution and operations of web games developed by third-party gaming developers.

Gross profit and gross profit margin

	2016		2015	
	RMB'000	GP margin (%)	RMB'000	GP margin (%)
Flexo-printed cartons	44,253	14.6	65,862	20.0
Offset-printed cartons				
– Traditional paper-based cartons	31,511	18.1	36,260	22.4
– Stone paper based cartons	60,775	35.6	46,387	37.3
Sub-total	92,286	26.8	82,647	28.9
Packaging segment	136,539	21.1	148,509	24.1
Mobile gaming segment	129,343	58.5	–	–
Total	265,882	30.6	148,509	24.1

The overall gross profit for the Group for the year ended 31 December 2016 was approximately RMB265.9 million, representing an improvement of 79.0% or approximately RMB117.4 million as compared to approximately RMB148.5 million in 2015. Overall gross profit margin increased from approximately 24.1% in 2015 to approximately 30.6% in 2016. The increase is primarily due to the newly acquired mobile gaming segment which operates on a higher gross profit margin as compared to solely operating the packaging segment before.

Gross profit for the flexo-printed cartons segment for the year ended 31 December 2016 was approximately RMB44.3 million, representing a decline of 32.8% as compared to approximately RMB65.9 million in 2015. Gross profit margin decreased to 14.6% in 2016 from 20.0% in 2015. This was mainly due to an increase in raw paper costs.

Gross profit for the offset-printed cartons segment for the year ended 31 December 2016 was approximately RMB92.3 million, representing a growth of 11.7% as compared to approximately RMB82.6 million in 2015. The gross profit margin of offset-printed cartons decreased slightly to 26.8% from 28.9% in 2015. The decrease in gross profit margin of both the flexo-printed cartons segment as well as the traditional offset printed cartons segment was counterweighted by the increase in sales of higher margin stone-paper based cartons.

The gross profit and gross profit margin for the Group's mobile gaming segment for 2016 was approximately RMB129.3 million and 58.5%, respectively. It is worth noting that the gross profit for the mobile gaming segment only represented gross profit from 8 months' operations.

OTHER REVENUE AND INCOME

Other revenue and income of the Group decreased by 38.8% or approximately RMB3.8 million from approximately RMB9.8 million in 2015 to approximately RMB6.0 million in 2016. The decrease was mainly attributable to the reduction of tax concession in packaging segment which was expired during the year.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses of the Group increased by 232.6% or approximately RMB67.7 million, from approximately RMB29.1 million in 2015 to approximately RMB96.8 million in 2016. The increase was mainly due to an incurred advertising and promotion expenses for our stone paper and marketing expenses of the games launched on our publication and distribution platforms known as youc.com (優戲網) and menle.com (萌樂網). Consequently, our selling and distribution expenses as a percentage of our total turnover increased from 4.7% in 2015 to 11.1% in 2016.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by 58.4% or approximately RMB16.0 million from approximately RMB27.4 million in 2015 to approximately RMB43.4 million in 2016. The increase was primarily due to the increase in office and administrative expenses from the newly acquired business and the increase in legal and professional fees arising from the acquisition of Cable King Limited.

CHANGE IN FAIR VALUE OF CONTINGENT CONSIDERATION PAYABLE

During the year, the Group has recognised a change in fair value of approximately RMB52.0 million as a result of subsequent re-measurement of the fair value on the Group's contingent consideration payable, representing the additional consideration in relation to acquisition of mobile gaming business completed in April 2016.

FINANCE COSTS

Finance costs of the Group increased by 213.1% or approximately RMB17.9 million from approximately RMB8.4 million in 2015 to approximately RMB26.3 million in 2016. The increase was mainly attributable to the increase in promissory notes and convertible bonds during the year.

INCOME TAX EXPENSES

Income tax expenses of the Group decreased by 3.3% or approximately RMB0.5 million from approximately RMB15.1 million in 2015 to approximately RMB14.6 million in 2016. The Group's effective tax rates for 2016 was 64.8% as compared to 21.6% for 2015. The packaging segment continues to enjoy preferential income tax rate of 15% while the mobile gaming segment is entitled to enjoy three years of preferential income tax rate of 12.5%. The three years' preferential income tax rate commenced from 1 January 2016.

PROFIT FOR THE YEAR

As a combined result of the factors discussed above, the Group's profit for 2016 decreased by approximately RMB46.9 million or 85.6% from approximately RMB54.8 million in 2015 to approximately RMB7.9 million in 2016. Moreover, our net profit margin decreased from 8.9% in 2015 to 0.9% in 2016.

DIVIDEND

No dividend has been paid or proposed by the Group for the years ended 31 December 2016 and 2015.

Subsequent to the year ended 31 December 2016, a special dividend of HK2.0 cents per share was declared on 30 March 2017.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a healthy and liquid position with working capital financed by internal resources, bank borrowings, promissory notes and convertible bonds. As at 31 December 2016, cash and bank balances amounted to approximately RMB374.3 million (2015: RMB266.2 million), primarily denominated in Renminbi and Hong Kong Dollars. The Group's total borrowings amounted to approximately RMB363.1 million (2015: RMB211.0 million) As at 31 December 2016, 25.1% (2015: 58.8%) of the total borrowings were denominated in Renminbi and 74.9% (2015: 41.2%) of the total borrowings were denominated in Hong Kong Dollars. The Group's gearing ratio is calculated as total borrowings, which is the summation of bank borrowings, promissory notes and convertible bonds, divided by total equity. The gearing ratio of the Group as at 31 December 2016 and 2015 were 62.6% and 60.1% respectively.

On 28 April 2016, upon completion of the acquisition of Cable King, pursuant to the Share Purchase Agreement, the Group issued a promissory note with principal amount of HK$200,000,000. The promissory note will be repayable in full by 28 April 2019 and may be redeemed at the option of the Group in whole or in part at any time during the period prior to the maturity date. The promissory note bear a fixed coupon interest rate at 9% per annum payable in arrears of every calendar year. During the year, the Group has redeemed HK$130,000,000 of the promissory note.

On 20 May 2016, the Group issued a promissory note and convertible bonds ("Note and Bonds") with principal amounted of HK$120,000,000 and HK$30,000,000, respectively. The Note and Bonds will be repayable in full by 20 May 2017 and shall be extended for a further term of one year, provided that they shall not be extended for more than two years. The Note and Bonds may be redeemed at the option of the Group in whole at any time during period between the first day of the sixth month following the date of issue and the last day immediately preceding the maturity date. The Note and Bonds bear a fixed coupon interest rate at 7.5% per annum payable semi-annually, commencing on 20 November 2016.

The Bonds entitle the holder to convert to ordinary shares of the Company at a conversion price of HK$0.75 per share. Upon the exercise of the conversion rights in full, an approximately 40,000,000 shares will be issued, representing approximately 3.46% of the issued share capital of the Company as enlarged by the allotment and issue of the share on conversion. On 12 August 2016, HK$20,000,000 of the Bonds were converted to 26,666,666 ordinary shares of the Company.

The net proceeds from the issue of Notes and Bonds was approximately HK$147.4 million. The Company shall use such net proceeds for the repayment of part of the promissory notes issued by the Company as part of the consideration in acquiring the share capital in Cable King Limited and for future expansion opportunities.

INVENTORIES

As at 31 December 2016, inventories amounted to approximately RMB28.1 million (2015: RMB25.2 million). The number of inventory turnover days was approximately 19 days (2015: 17 days).

TRADE RECEIVABLES

As at 31 December 2016, trade receivables amounted to approximately RMB155.3 million (2015: RMB147.5 million). The Group granted customers from our packaging segment a credit period of 30 to 60 days following the day of delivery. The number of turnover days for trade receivables was approximately 64 days (2015: 64 days).

TRADE PAYABLES

As at 31 December 2016, trade payables amounted to approximately RMB78.4 million (2015: RMB74.9 million). The Group managed to obtain a credit period of an average of approximately 60 days from the majority of its suppliers. The turnover day for trade payables was approximately 46 days (2015: 52 days).

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC while most of its operating transactions are settled in RMB. Most of its assets and liabilities are denominated in RMB. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect future currency fluctuations to materially impact the Group's operations. The Group did not adopt formal hedging policies and no instruments have been applied for foreign currency hedging purposes during the year ended 31 December 2016.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group's capital commitments were approximately RMB61.9 million (2015: RMB68.4 million). The capital commitments were mainly related to capital contribution payable to a subsidiary and capital expenditure on acquiring property, plant and equipment.

CONTINGENT CONSIDERATION AND LIABILITIES

On 17 November 2015, the Company entered into the Share Purchase Agreement (the "SPA") with Mr. Peng Dongmiao (the "Vendor"). Pursuant to the SPA, the net aggregate consideration will be further adjusted based on the audited consolidated profit after tax of Cable King for the financial year ended 31 December 2016 (the "Actual Profit"). If the Actual Profit is more than HK$49 million, the Company shall pay the vendor an additional consideration (the "Additional Consideration") subject to a maximum amount of HK$180 million.

The Additional Consideration is recognized as the contingent consideration payable, measured at fair value. The fair value was determined by an independent professional valuer not connected with the Group based on probability weighted payoff of the scenarios, discounted at the sum of weighted average cost of capital and a premium. The fair value as at 31 December 2016 was HK$173.8 million (approximately RMB155.6 million).

As at 31 December 2016, save as disclosed above, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

As at 31 December 2016, the Group pledged certain assets with a carrying value of approximately RMB151.5 million (2015: RMB192.5 million) as collateral for the Group's bills payable and bank borrowings.

INFORMATION ON EMPLOYEES

As at 31 December 2016, the Group had a total of 655 full time employees, including the Executive Directors (2015: 527). Total staff costs (including Directors' emoluments) were approximately RMB55.8 million, as compared to approximately RMB59.8 million for the year ended 31 December 2015.

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The package includes salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 27 April 2016, the Group has acquired the entire interest of Cable King, which is engaged in the development, distribution and operation of mobile gaming products in the PRC at a consideration of HK$440.0 million (HK$590.8 million at fair value) subject to the adjustments detailed in the circular of the Company dated 29 February 2016.

Save as disclosed above, the Group had no other material acquisitions or disposals during the year.

OUTLOOK

The acquisition of Cable King during the year is a strategic investment to the Group. It represents a significant milestone to diversify the Group's business from traditional packaging to an era of high growth in mobile gaming. The Group aims to achieve sustainable growth in both sales and profit by widening its income sources with risks diversified in various segments. We have adopted the following strategy for our two businesses:

Mobile gaming business

In 2016, China has surpassed the U.S. to become the world's leader in global gaming revenue and has entered the golden era of gaming. Nevertheless, the mobile gaming industry is highly competitive with low barriers of entry and a sheer number of games available to consumers at arms' length. In view of such opportunities and challenges, our strategy is to focus on the PRC gaming market and to develop mobile games with locally-inspired titles that are famous at a local level. To date, the Group has selected to develop games in areas such as games with Chinese medieval fantasy themes and games with local myths, or strong names from Chinese fictions. The Group will buy patents from such brands and develop games for them. In the future, the Group will not only develop more games but also a wider variety of games, which includes browser-based massive multi-player online role-play games (MMORPG) and free-to-play casual games. In order to reach a wider range of target audience, particularly to tap into the predominated Andriod users of the Chinese market, our games have been launched through our proprietary developed gaming platform as well as through well-established third party distribution platforms. The Group will also explore other monetization models such as in-app ads, especially for free-to-play casual games.

Packaging Business

The Group's production capacity will maintain a steady growth with the installation of a new production line during the year. In order to tackle the challenges such as an increase in raw paper cost, we have implemented a cost control program to minimize wastage.

On the other hand, internet savvy consumers placed online orders such as clothes, food & drinks, and even daily necessities more than ever before, driving a tremendous demand for online sellers to use packaging materials such as the flexo-printed carton boxes and offset-printed carbon boxes to send purchased goods to final consumers. Various e-commerce platforms have occasionally organized massive shopping bonanzas such as Singles Days. Online shops stocked up their inventory of carton boxes in anticipation of massive shopping events. Owing to the tremendous growth in online shopping, demand for packaging materials has sharply increased over the years. In order to capture such huge potential, we will collaborate or form strategic alliance with some logistic companies regarding the usage of our environmental friendly stone paper as their packaging materials.

Moreover, we are also proactively adjusting our product mix by focusing on producing of more value-added products to boost the Group's profitability. We aim to use our production facilities for the highest and best use to create most value for our shareholders.

Looking ahead, the Group will continue to seek selective mergers and acquisitions opportunities with the aim to create better returns for shareholders. The Group would make announcements when such more details emerged.

I. INTRODUCTION

The Board believes that a sound environmental, social and governance structure is vital for continued sustainability and development of the Group's activities. In addition to business growth, the Group has been pursuing excellence in environmental protection, social responsibility, and governance areas. Meanwhile, the Group also wishes to enhance its transparency to achieve and uplift the sense of social caring and responsibility amongst various stakeholders, the environment and the community.

This Environmental, Social and Governance (ESG) report is designed to allow shareholders, investors (including potential investors) and the public to have a more comprehensive and profound understanding of the Group's corporate governance and culture. The Group is willing to take more responsibilities for the society to balance the shareholders' interests and the society's benefits.

II. REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG report covers the operational boundaries including the activities of the office in Hong Kong and several operating subsidiaries in The People's Republic of China (the "PRC"). The reporting period of this ESG report is for the financial year of 2016, from 1 January 2016 to 31 December 2016 ("FY2016"), unless specially stated otherwise.

III. STAKEHOLDER ENGAGEMENT

The Group acknowledges the need and importance of the stakeholder engagement as one of the key elements in ESG reporting. The Group is also committed to achieving a high standard of ESG that can properly promote the Group's reputation as a caring and responsible company to enhance corporate value and accountability of the company.

During FY2016, the Group has conducted a series of stakeholders' participation surveys to collect their advice and opinions on the Group's environmental and social governance. Stakeholders with high influence and high dependence on the Group are selected by the management of the Group. The selected stakeholders have been invited to express their views and concerns on major social and environment issues. The stakeholder engagement has been conducted through online survey. For this report, the Group determines environmental policy, energy consumption, pollutant control, supply chain management and operational management compliance as material concerns to stakeholders.

IV. ENVIRONMENTAL SUSTAINABILITY

The Group is committed to the long-term sustainability of the environment and community in which it engages. This section will primarily disclose the policies and practices on the emissions, use of resources and environmental and natural resources of the Group during FY2016.

A.1. Emissions

The Group adamantly implements government laws and regulations regarding environmental protection. The emission mainly comprises domestic wastewater, solid waste and Greenhouse Gases (GHGs) emission and noise. The Group has appealed the staff to save water and electricity daily operations; it has also taken initiatives for fully recycling waste materials to reduce waste produced, thereby minimizing environmental impacts. The specific emissions are reported respectively as below:

Waste water

Waste water produced by the Group is mainly produced from the daily use of offices and staff dormitories. The Group has strictly complied with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) and the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). Waste water generated by the mobile gaming business mainly comes from the office building. As for packaging business, a basic waste water treatment device has been installed in the factory which filters wastewater before it is disposed into the sewage pipe networks.

Solid Waste

The Group has strictly complied with the Laws of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) in dealing with solid waste. Solid wastes generated by the Group include domestic solid waste generated in offices and dormitories, waste paper and coal cinder generated in the factories. Solid waste from the mobile gaming business is mainly created by the use of office buildings. In the packaging business, domestic solid waste is collected by the environmental sanitation company regularly, while waste paper is collected and recycled. To increase recycling efficiency, the Group invented a proprietary site recycling equipment to treat waste paper, a patent has been obtained for such invention. The Group provided coal cinder to local residents as organic fertilizers for free.

Greenhouse Gases

Greenhouse gases (GHGs) generated by the Group are mainly derived from the packaging business. In terms of GHGs control, the Group has complied with the Law of the People 's Republic of China on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》). To reduce the GHGs emission as much as possible, the Group has adopted modern boilers to improve the burning rate of coals. Furthermore, the Group owns a patent known as the Improved Device for Soft Water Discharge, which largely improves the quality yet decreases its amount of the greenhouse gases.

Noise

In compliance with the Law of the People's Republic of China on the Prevention and Control of Ambient Noise Pollution (《中華人民共和國環境噪音污染防治法》), the Group has conducted noise reduction around the operation sites to meet the requirements of the PRC Emission Standard for Industrial Enterprise Noise (《工廠企業廠界環境噪音排放標準》) (GB 12348-2008).

A.2. Use of Resources

Electricity Consumption

All electricity consumption has been derived from the use of lighting, air-conditioners, computers and other electric equipment in the offices, and the regular operation of the machines in the operation sites. The Group understands well the positive correlation between electricity consumption and GHGs emissions. Thus, in order to ensure the effective use of electricity and to reduce electricity consumption, several practices have been applied by the Group during FY2016, which includes:

In the offices:

- Turn office lights off whenever and wherever not necessary; replace traditional lamps with power saving LED lights; use voice operated switches in the corridors;
- Adjust air-conditioners to a comfortable temperature in the offices, and turn them off whenever necessary.

In the factories:

- Replace high electricity consumption lamps with electricity saving lamps;
- Turn off idling machines that are not in operation;
- Operate machines in a reasonable manner and repair them once they are out of order;
- Replace obsolete equipment to improve electricity utilization efficiency;

Water Consumption

Water consumption by the Group includes both domestic and industrial uses. To reduce water consumption, the Group has conducted the following practices in 2016:

1. Adopt low-flow faucets or showers in the office and staff living areas. Once a leaking problem is found, the Group sends a plumber to fix it immediately;
2. Promote the recycling of domestic water on a daily basis;
3. Encourage employees to be involved in the business's green efforts;
4. Purchase water-efficient equipment to replace old heavy water consuming equipment;
5. Reduce landscape water use by planting native plants or other less water-intensive alternatives and installed a rain-harvesting system to collect water on the site for landscape irrigation and using a sensored irrigation system to control exterior water use.

Paper Consumption

Paper consumption mainly comes from the operations of the factories of the packaging business while processing orders from clients. To ensure an efficient use of paper, the Group has adopted several practices:

- Encourage employees to "think before print": Use posters and stickers to remind staff prior to printing;

- Encourage the use of both side of papers: Set computer defaults to print double-sided whenever possible;

- Go electronic: Created electronic systems to eliminate paper forms as much as possible.

Coal Consumption

Coals are mainly consumed in the factories of the packaging business. To improve the efficiency of using coals, the Group has installed blowers and exhaust fans on the boilers to ensure that there is sufficient oxygen for the burning process of these coals.

A.3. The Environment and Natural Resources

The Group is in strict compliance with the relevant laws and regulations such as the Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》) and the Circular Economy Promotion Law of the People's Republic of China (《中華人民共和國循環經濟促進法》) in its operation sites. The Group tries to minimize environmental impacts in its operation processes. The Group's routine operations do not exert any bad influences in the surroundings. The wastes, noise and other environmental impacts generated from the operation process are in compliance with environmental laws and regulations. The Group will continue to adhere to the safe, harmonious and green development concept and will reserve no efforts in creating a resource-saving and environmentally-friendly corporate.

V. SOCIAL SUSTAINABILITY

EMPLOYMENT AND LABOUR PRACTICES

B.1. Employment

The Group regards all employees as one of the most important and valuable assets. The human resources policies strictly adhere to the applicable employment laws and regulations in Hong Kong and the PRC, including, the Employment Ordinance, Mandatory Provident Fund (MPF) Schemes Ordinance, Minimum Wage Ordinance, Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》). The Human Resources Department reviews and updates relevant company policies constantly in accordance with the latest laws and regulations.

To motivate and reward employees, the Group offers competitive and fair remuneration and benefits based on individuals' performance, experiences and prevailing industry practice to attract, motivate and retain a high-calibre workforce. These include competitive salaries, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Meanwhile, any termination of employment contracts would be based on reasonable and lawful grounds. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

Throughout the Group, it arranges reasonable working hours and leave for the employees which are in line with local employment laws. In addition to statutory holidays stipulated by the region, employees may also be entitled to paid annual leave, maternity leave and paternity leave, marriage leave, funeral leave and sick leave for employees under the employment law of the local government.

The Group is committed to create a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunities in terms of all human resources and employment decisions, for instance, training and promotion opportunities, dismissals and retirement policies irrespective of their gender, race, age, disability, family status, marital status, sexual orientation, religion beliefs, nationality or any other non-job related factors in all business units. The equal opportunities policy enforces zero tolerance to any workplace discrimination, harassment or victimization in accordance to relevant government legislation, ordinances and regulations such as Disability Discrimination Ordinance, Race Discrimination Ordinance and Sex Discrimination Ordinance.

To cultivate a sense of belonging for the employees, the Group also sets aside reserved funds for activities. In 2016, the Group hosted a series of activities for the employees, including the Year-end Dinner and the Mid-autumn Festival Party. These events helped the employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion.

B.2. Health and Safety

The Group stressed on the importance of providing and maintaining a good working environment and safe working conditions. The safety and health policies are in line with various laws and regulations stipulated by the Government of Hong Kong and PRC, including the Occupational Safety and Health Ordinance, the Production Safety Laws of the PRC (《中國安全生產法》), the People's Republic of China Occupation Disease Prevention Law (《中國職業病防治法》)and Regulation on Work-Related Injury Insurance (《工傷保險條例》).

The Group values the management and control of safety and health risks. It sets stringent safety practice standards to minimize the risk of accidents and enhances the employees' health and safety awareness. The Group provides physical examination for employees every year. Relevant employees on the operation sites are required to be trained on emergency management, safe use of machines and attend occupational health and safety courses. In 2016, the Group has conducted several emergency response drills and safety inspections. Besides, the Group has organized an annual health and safety training; held regular safety work meetings; set up safe and healthy work bulletin; set up safety warning signs; set up safety banners and slogans; and prohibited smoking and drinking of liquor in workplace. The Group strives to maintain a clean, tidy, smoke-free, non-toxic, non-hazardous, healthy and safe working environment for all employees.

B.3. Development and Training

The Group offers different training and development opportunities to staff in order to strengthen skills and knowledge while improving operational efficiency and productivity. For newly hired employees, the training provides comprehensive orientation for them to get a taste of corporate culture, business flows, health and safety issues, management systems and personal development. For experienced staff, the Group offered online learning websites for employees. Departments will also share some learning materials through the Company's intranet. The Group provides training to employees in various stages of work as required.

B.4. Labour Standards

The Group strictly abides to the Employment Ordinance of Hong Kong, Labour Law of the PRC (《中華人民共和國勞動法》), Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), Prohibition of Child Labour of the PRC (《中國禁止使用童工規定》), and other related labour laws and regulations in Hong Kong and China to prohibit any child and forced labour employment.

In order to combat illegal employment on child and forced labour, prior to employment, the human resources department and the relevant departments will specify that all employees should provide valid identity documents to ensure that they are lawfully employable.

OPERATING PRACTICES

B.5. Supply Chain Management

Packaging Business

The main raw materials purchased in the packaging business are raw paper and corrugated cardboard. The Group values the management of the supply chain and has strictly complied with internal regulations of choosing suppliers in adherence to the guidelines of the Supplier Management Operations (《供應商管理作業》). The Group has a more favourable preference towards suppliers who adopt a more eco-friendly production process.

When screening for suppliers, the Group considers the quality of the suppliers' goods and services, and reviews the suppliers' business licenses, previous track records, reputation and relevant certificates. There is strict procedure to determine qualified suppliers that the relevant departments would have to keep in contact with potential suppliers and conduct reviews based on the quality, market reputation and methods of payment. If these potential suppliers pass the final review, the Group will sign the supply agreement with the suppliers and put them on the list of qualified suppliers. The Group conducts regular assessment of the qualified suppliers based on quality, price, delivery time and the level of cooperation. The status of "qualified supplier" would be cancelled if their product/services were not deliver to the standards and they would be removed from the list of qualified suppliers going forward.

Upon purchasing, the Group requests quotations from the list of qualified suppliers. The priority goes to those who have good credibility and reputation. To ensure sufficient supply, the Group selects more than one supplier of each type of raw materials in the supplier list as backup suppliers. Besides, the Group conducts annual evaluation of these suppliers in terms of management turnover, production capacity, changes in manufacturing techniques and raw materials, violations of the law and self-discipline of these suppliers.

Mobile gaming business

To ensure the quality of suppliers in the mobile gaming business, the Group has formulated its own IT Supplier Management Guidelines (《IT供應商管理操作指引》). All potential suppliers are sourced publicly or recommended by an internal department or a specific project team. The potential suppliers should fill in an application form to be assessed by the Group. Only those who pass the assessment and without poor track records would be included in the qualified suppliers list. The Group selects suppliers from the list according to the needs of the projects and conduct regular technical reviews on these suppliers' qualification. The Group evaluates qualified suppliers based on their registered capital, company size, operation status, financial indicators, business strategies, relevant business qualifications (such as ISO and CMMI), relevant product qualifications, and their list of clients. On the technical review perspective, the Group's evaluation is based on the IT industry profession's standard, core technologies, level of quality control, quality assurance systems, problem processing capacity and additional assessment criteria for specific project requests. In addition, all suppliers must adhere to relevant laws and regulations in the industry.

B.6. Product Responsibility

The Group takes product quality and safety as priority. The Group's quality management system is in line with the rules and regulations as stipulated by the PRC government such as the Safe Production Law (《安全生產法》) and the Patent Law (《專利法》) and ISO9000.

Packaging Business

The main operations in the packaging business include design, manufacturing, printing and sales of these paper packaging products including flexographic cartons, offset printed cartons, and stone paper packaging products. The Group adheres to the business philosophy of "customer's priority is our priority, and to work hard to achieve new heights" ("顧客第一，勇攀高峰") and the principle of conducting business in an honest and trustworthy way to ensure quality services.

The Group has formulated management procedures to ensure quality of the Group's products. When raw materials arrive, the quality control department conducts an inspection and complete a material inspection report. The inspected materials will be sent to storage and transported with the report. The unqualified materials will be sent to storage and transported with the material inspection report and the unqualified material notice will be issued. The storage and transportation department will then inform procurement to return these materials.

When the Group's products have been manufactured, the quality control department conducts an inspection and completes a product inspection report (《成品檢驗報告書》). The qualified products are kept in storage while the unqualified ones will be returned to the production department for improvement.

The Group takes product labelling seriously and adheres to all relevant laws and regulations in China such as the Food Safety Law of the People's Republic of China (《中華人民共和國食品安全法》) and the Measures for the Administration of Organic Product Certification (《有機產品認証管理辦法》). The Group takes great importance on the food-related labelling that comes with orders from clients.

The Group also places great importance to the intellectual property rights in this segment and complies to the relevant laws and regulations including Patent law of the People's Republic of China (《中華人民共和國專利法》) and the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識財產權法》).

Mobile gaming business

The mobile gaming business operates on two self-developed gaming platforms known as www.menle.com (萌樂網) and www.youc.com (優戲網).

The three mobile games that are contributing most to the Group's profit includes:

1) Legend of the Journey to the West (大聖傳説)
2) Heroes of the Imperial Empire (帝國英雄)
3) Legend of the Reign of Assassins (劍雨傳説)

To coup with the national requirements for mobile games and platforms, the Group has strictly adopted relevant laws and regulations including Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), Law of the People 's Republic of China on Publishing (《中華人民共和國出版法》), Copyright Law of the People's Republic of China (《中華人民共和國版權法》), People's Republic of China Internet Information Service Management Measures (《中華人民共和國互聯網信息服務管理辦法》, Interim Measures for the Administration of Internet Games (《互聯網游戲管理暫行辦法》), People's Republic of China Internet Information Service Management Measures (《中華人民共和國互聯網信息服務管理辦法》) and People's Republic of China Telecommunications Regulations (《中華人民共和國電信條例》).

Adhering to the Interim Measures for online game management (《網絡游戲管理暫行辦法》) formulated by the Ministry of Culture of the People's Republic of China, the Group has submitted its game record to the Ministry of Culture one month before the game is being published.

The Group also closely monitored the release of marketing materials to prevent inappropriate or exaggerated advertisement in compliance with Advertising Law of the PRC (《中華人民共和國廣告法》) and related advertising laws. Any non-compliance would be corrected immediately once discovered. Internal guidelines have been regularly updated with the latest regulations.

The Group is committed to abide to the Personal Data (Privacy) Ordinance and Consumer Council Ordinance in Hong Kong, and Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中國消費者權益保護法》) to ensure that customers' rights are strictly protected. All collected personal data is treated confidentially and is kept securely.

B.7. Anti-corruption

To maintain a fair and efficient business environment, the Group strictly adheres to the laws and regulations related to anti-corruption and bribery as set out by the government of the PRC and Hong Kong, such as the Law on Anti-money Laundering (中國反洗錢法) and Hong Kong's Prevention of Bribery Ordinance (防止賄賂條例).

Besides, the Group has formulated and strictly enforced internal anti-corruption policies. All employees are expected to discharge their duties with integrity and self-discipline, and are required to abstain from engaging in any activities related to bribery, extortion, fraud and money laundering which affect their business decision or independent judgment in the course of business operation which are against the Group's interests. The management of the Group conducts investigation against any suspicious or illegal behaviour to protect the Group's interests. The Group advocates a confidentiality mechanism to protect whistle-blowers from fear of threatens and any disadvantage to the informant's employment relationship. Where criminality is suspected after investigation, disciplinary actions will be taken, including termination of employment and the reporting of the matter to the relevant authorities.

COMMUNITY

As a responsible business, the Group extends active presence in community activities to support public welfare in addition to its efforts in delivering business growth. It listens to community needs and contributes to local economy, livelihood and a harmonious environment.

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 1 to the Consolidated Financial Statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by business segments for the year ended 31 December 2016 is set out in note 6 to the Consolidated Financial Statements.

BUSINESS REVIEW

A review of the business, financial key performance indicators and outlook of the Group for the year ended 31 December 2016 are provided in the Chairman's Statement and Management Discussion and Analysis on page 6 and pages 16 to 23 of this annual report.

ENVIRONMENTAL POLICY

The Group recognizes the importance of environmental protection. We have imposed the following measures to control our pollutant emissions during our production process:

(1) Waste water is processed by our sewage treatment station to reach national safety standards for discharge;

(2) A desulfurization device was in place to monitor the emission of sulfur dioxide so as to ensure that the waste gas emitted from our steam boiler in our boiler room is within the national permissible level; and

(3) Solid waste such as scrap paper and various residues from production will be sold to scrap paper recycling companies for recycling.

For administrative office, we also implement green office practices such as double-sided printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarized below.

Operation risk

Mobile gaming business

(a) the Group may not be able to continuously enhance its existing games and player experience and launch high-quality new games and services, which will materially and adversely affect its ability to continue to retain existing players and attract new players;

(b) the Group utilizes major game distribution platforms, online application stores and third-party payment vendors to generate a substantial portion of revenues and if the Group is unable to maintain a good relationship with these distribution and payment channels or if the use of these distribution or payment channels is adversely affected by any factor such as new measures imposed or intervention by any regulators or third parties, the business and results of operations of the Group will be adversely affected;

(c) the Group relies on the contractual arrangements to control and obtain the economic benefits from Binghe (Xiamen) Information Technology Company Limited (冰河信息技術有限公司) ("Binghe") which may not be as effective in providing operational control as direct ownership;

(d) if the PRC government finds the contractual arrangements established for operating the online game businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the contractual arrangements and the relinquishment of our interest in the variable interest entity, being Binghe;

(e) there are uncertainties in the interpretation of PRC laws and regulations relating to the contractual arrangements, in particular, based on the consultation draft of the new PRC Foreign Investment Law published by the Ministry of Commerce on 19 January 2015 and assuming that the draft of the new PRC Foreign Investment Law is enacted as proposed, substantial uncertainties exist in connection with the legality and validity of the contractual arrangements to hold interests in PRC businesses that are subject to foreign ownership restrictions. If an entity established in a foreign jurisdiction is identified as controlled by Chinese investors, the foreign entity could still be recognised as a Chinese investor by the Ministry of Commerce and is therefore not subject to foreign ownership restrictions; and the Company may have to incur significant compliance costs in the future;

(f) challenges presented by the extensive law and regulation of various aspects of online game business in the PRC markets and there is no assurance that such laws and regulations would not apply to the Group or be interpreted in ways that could affect the Group's business.

Competition risk

Packaging business

The packaging industries in which the Group operates in the PRC are highly competitive. The Group's ability to compete is, to a significant extent, dependent on its ability to provide high quality products at a reasonable prices that suit our customer's need. The Group's competitors have varying abilities to withstand changes in market conditions. Some of the competitors have larger market shares, have operated their respective businesses longer than the Group has, have wider geographical coverage for its products, have substantially greater financial and other resources than the Group has and may be better established in the market.

Mobile gaming business

The Group also faces competition in the mobile gaming industry. New technologies such as virtual reality and ever-changing hardware in mobile may make the competition fiercer than before. The Group will continue to delicate its effort in utilizing the existing players' comments for continue development in order to retain their involvement and prolong their play time. We will also continue to research and develop new ideas to attract new players.

Financial Risk

The financial risk management policies and practices of the Group are shown in Note 5 to the consolidated financial statements. There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

RELATIONSHIPS WITH STAKEHOLDERS

Employees

The Company recognizes that employees are our valuable assets. Thus our Group provide competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and make necessary adjustment to conform to the market standard.

Suppliers

We have developed long-standing relationships with a number of our suppliers and conducts a fair and strict appraisal on an annual basis.

Customers

We are committed to provide our customers with high quality products and deliver on a timely basis. We also stay connected with our customers to keep abreast of the changing customer preference through regular visits of our sales teams.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 48.

SPECIAL DIVIDEND AND DISCLOSURE OF REGISTER OF MEMBERS

The Board recommended the payment of a special dividend of HK2.0 cents per Share for the year ended 31 December 2016 ("Special Dividend") to Shareholders whose names appear on the register of members of the Company on 9 June 2017. The proposed Special Dividend is subject to approval by the Shareholders at the annual general meeting ("AGM") to be held on Wednesday, 31 May 2017. If the resolution for the proposed Special Dividend is passed at the AGM, the proposed Special Dividend will be payable on or about Friday, 30 June 2017.

The register of members will be closed from Thursday, 25 May 2017 to Wednesday, 31 May 2017, both days inclusive, during which no transfer of shares will be registered. In order to determine the eligibility of shareholders to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Wednesday, 24 May 2017.

The register of members of the Company will be closed from Tuesday, 6 June 2017 to Friday, 9 June 2017, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for the proposed Special Dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Monday, 5 June 2017.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 136 of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 33 to the Consolidated Financial Statements.

RESERVES

Movements in the reserves of the Group during the year ended 31 December 2016 are set out in the consolidated statement of changes in equity on page 51 of this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands and the Company's articles of association (the "Articles of Association"), amounted to approximately RMB180.9 million (as at 31 December 2015: RMB27.2 million).

CONVERTIBLE BONDS

Details of movements in the convertible bonds of the Group during the year are set out in Note 29 to the Consolidated Financial Statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest and five largest customers accounted for approximately 7.2% and 25.7% of the total turnover for the year 2016 respectively. Purchases from the Group's largest and five largest suppliers accounted for approximately 13.5% and 45.8% of the total purchases for the year 2016 respectively.

To the best knowledge of the Directors, neither the Directors, their associates, nor any shareholders who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers or suppliers during the year ended 31 December 2016.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 36 to the Consolidated Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 16 to the Consolidated Financial Statements.

CHARITABLE CONTRIBUTIONS

During the year, the Group did not made charitable contributions (2015: Nil).

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company who hold office during the year and up to the date of this report are:

Executive directors

Mr. Chen Wei Wei *(Chairman)*
Mr. Sun Shao Hua
Ms. Zheng Li Fang *(appointed on 18 March 2016)*
Ms. Hu Li Yu *(resigned on 18 March 2016)*

Independent non-executive directors

Mr. Liu Da Jin
Mr. Wu Ping
Mr. Ma Yiu Ho, Peter

In accordance with the provisions of the Company's Articles of Association, Mr. Sun Shao Hua and Mr. Ma Yiu Ho, Peter will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting ("AGM").

None of the Directors, including two proposed for re-election at the forthcoming AGM, has a service agreement which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Each of Mr. Chen Wei Wei and Mr. Sun Shao Hua has a three-year service contract with the Company from 13 December 2013. The contract has been renewed for a term of three years from 13 December 2016 and may be terminated by not less than three months' notice in writing served by either party. Ms. Zheng Li Fang has a three-year service contract with the Company from 18 March 2016 and may be terminated by not less than three months' notice in writing served by either party. Each of Mr. Liu Da Jin, Mr. Ma Yiu Ho, Peter and Mr. Wu Ping has been appointed on 13 December 2013 as an independent non-executive Director. Mr. Liu, Mr. Ma and Mr. Wu has renewed their letter of appointment for a term of three years from 13 December 2016 and maybe terminated by either party giving at least one month's notice in writing.

The Company has received annual confirmation on independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all of them are considered to be independent.

DIRECTORS' REMUNERATION

The remuneration of the directors is determined with reference to directors' duties, responsibilities and performance and the results of the Group.

Details of the remuneration of the directors are set out in Note 11 to the Consolidated Financial Statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Group are disclosed in the section headed "Biographical Details of Directors and Senior Management" on pages 4 to 5 of this annual report.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2016, the Group has completed an equity investments. On 27 April 2016, we acquired the entire interest of Cable King which are engaged in the development, distribution and operation of mobile gaming products in the PRC at a consideration of HK$440.0 million (HK$590.8 million at fair value) subject to adjustments detailed in the circular of the Company dated 29 February 2016.

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholder's resolution passed on 13 December 2013 (the "Share Option Scheme") as incentives or rewards to eligible participants who means full-time or part-time employees of our Company or members of our Group, including Executive Directors, Non-executive Directors and Independent Non-executive Directors, advisors, consultants of our Group. The Share Option Scheme constitutes a share option scheme governed by Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Share Option Scheme is valid and effective during the period commencing on 13 January 2014 and ending on 12 January 2024, being the date falling 10 years from the date on which the Share Option Scheme becomes unconditional. The Share Option Scheme has a remaining term of approximately 7 years as the date of this report. A summary of the Share Option Scheme is as follows:

Basis of determining the exercise/subscription price

The subscription price for the shares subject for any option under the Share Option Scheme shall be 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 of the option, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of the Company's share. A total of 80,000,000 share options have been granted under Share Option Scheme since its adoption.

Maximum number of shares

The total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme must not, in aggregate, exceed 10 percent of the shares in issue as at 12 December 2013 (i.e. 800,000,000 shares) i.e. 80,000,000 shares unless refreshed by the shareholders. However, the Company may not grant any option if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and other share option schemes adopted by the Group from time to time exceeds 30 percent of the shares in issue.

Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the option granted to a participant under the Share Option Scheme in any 12-month period must not exceed one percent of all the shares in issue from time to time unless a further grant to such participant is approved by the shareholders in general meeting.

Time for acceptance of option

A share option will be offered for acceptance for a period of 28 days from the date on which the option is granted.

Amount payable on application or acceptance of option

HK$1.00

Minimum and maximum period for the holding of a share option before it can be exercised

Unless otherwise determined by the Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of a share option before it can be exercised provided that the period within which the option must be exercised must not be more than 10 years from the date of the grant of the option.

The following table disclosed movements in the Company's share options granted under the Share Option Scheme during the year ended 31 December 2016:

Name and category of grantees	Date of grant (dd/mm/yy)	Exercisable period (dd/mm/yy)	Exercise price per Share HK$	Outstanding at beginning of the year	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at end of the year
Directors								
Mr. Chen Wei Wei	18/12/14	18/12/14 to 17/12/17	0.65	3,450,000	–	–	–	3,450,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,450,000	–	–	–	3,450,000
Mr. Sun Shao Hua	18/12/14	18/12/14 to 17/12/17	0.65	3,750,000	–	–	–	3,750,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,750,000	–	–	–	3,750,000
Ms. Hu Li Yu *(resigned on 18 March 2016)*	18/12/14	18/12/14 to 17/12/17	0.65	3,300,000	–	–	–	3,300,000
	18/12/14	18/12/15 to 17/12/17	0.65	3,300,000	–	–	–	3,300,000
				21,000,000	–	–	–	21,000,000
Other employees	18/12/14	18/12/14 to 17/12/17	0.65	9,500,000	–	–	–	9,500,000
	18/12/14	18/12/15 to 17/12/17	0.65	9,500,000	–	–	–	9,500,000
	24/04/15	24/04/15 to 23/04/18	1.09	20,000,000	–	–	–	20,000,000
	24/04/15	24/04/16 to 23/04/18	1.09	20,000,000	–	–	–	20,000,000
				59,000,000	–	–	–	59,000,000
Total for all categories				80,000,000	–	–	–	80,000,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the Directors of the Company had the following interests in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long positions in shares of the Company

Name of director	Capacity	Number of Shares held	Approximate percentage of shareholding
Mr. Sun Shao Hua	Interest of a controlled corporation	408,000,000	35.76%

Note: These shares are registered in the name of Novel Blaze Limited ("Novel Blaze"), the entire issued share capital of which is wholly and beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng is the spouse of Mr. Sun Shao Hua. Therefore, Mr. Sun is deemed to be interested in all the Shares in which Ms. Zheng is deemed to be interested.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

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

As at 31 December 2016, so far as is known to the Directors, the following entities, not being a Director or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares of the Company

Name of entity	Capacity	Note	Number of Shares held	Approximate percentage of shareholding
Novel Blaze	Beneficial owner	1	408,000,000	35.76%
Ms. Zheng Xue Xia	Interest of a controlled corporation	2	408,000,000	35.76%
Wealthy Achievers Limited	Beneficial owner	3	224,285,714	19.66%
Mr. Peng Dongmiao	Interest of a controlled corporation	4	224,285,714	19.66%
Qi Yuan Asset Management (H.K.) Ltd.	Investment manager		58,450,000	5.12%

Notes:

1. Novel Blaze is incorporated in the BVI and the entire issued share capital is beneficially owned by Ms. Zheng Xue Xia. Ms. Zheng, being the controlling shareholder, is deemed to be interested in the 408,000,000 Shares owned by Novel Blaze by virtue of the SFO.

2. The disclosed interest represents the interest in the Company held by Novel Blaze which is wholly and beneficially owned by Ms. Zheng Xue Xia. Therefore, Ms. Zheng is deemed to be interested in the interest of Novel Blaze in the Company by virtue of the SFO.

3. Wealthy Achievers Limited is incorporated in the BVI and the entire issued share capital is beneficially owned by Mr. Peng Dongmiao. Mr. Peng, being the controlling shareholder, is deemed to be interested in the 224,285,714 Shares owned by Wealthy Achievers Limited by virtue of the SFO.

4. The disclosed interest represents the interest in the Company held by Wealthy Achievers Limited which is wholly and beneficially owned by Mr. Peng Dongmiao. Therefore, Mr. Peng is deemed to be interested in the interest of Wealthy Achievers Limited in the Company by virtue of the SFO.

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2016, a permitted indemnity provision as defined in the Hong Kong Companies Ordinance was in force for an indemnity against liability incurred by the Directors.

DIRECTORS' AND CONTROLLING SHAREHOLDER'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries was a party and in which the controlling Shareholder or a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, there were no connected transactions and continuing connected transactions between the Group and its connected persons (as defined under the Listing Rules) which are subject to the reporting, announcement and the independent shareholders' approval requirement under the Listing Rules.

The material related party transactions as disclosed in Note 39 to the Consolidated Financial Statements are connected transactions exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

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

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

CORPORATE GOVERNANCE

The Company is committed to adopt corporate governance practice. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 8 to 15.

AUDITORS

The Consolidated Financial Statements for the year ended 31 December 2016 have been audited by HLB Hodgson Impey Cheng Limited which retires, and being eligible, offer itself for re-appointment at 2017 AGM. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Directors to fix its remuneration will be proposed at the 2017 AGM.

On behalf of the Board
Chen Wei Wei
Chairman and Executive Director
Jiangxi Province, the PRC, 30 March 2017

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA PACKAGING HOLDINGS DEVELOPMENT LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Packaging Holdings Development Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 135, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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)

Key audit matter	How our audit addressed the key audit matter
Business combination	
Refer to Notes 3 and 34 to the consolidated financial statements.	
On 27 April 2016, the Group acquired the entire equity interest in Cable King Limited ("Cable King"). The total consideration was approximately RMB495,256,000 and the fair value of net assets acquired from the business combination was approximately RMB65,399,000. As a result, the Group has recognised goodwill of approximately RMB429,857,000 in its consolidated statement of financial position. The acquisition requires the identification of assets acquired and the liabilities assumed and the consideration measured at their acquisition-date fair values, which require significant management judgement. Independent external valuations were obtained in order to support management estimates.	Our procedures in relation to the management determination the fair values of net assets acquired included: • Evaluating of the independent external valuers’ competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the acquisition-date fair values of the identifiable assets acquired and the liabilities assumed and the consideration are supported by the available evidence.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on goodwill and intangible assets	
Refer to Notes 3, 18 and 19 to the consolidated financial statements.	
The Group has goodwill and intangible assets with carrying amounts of approximately RMB 429,857,000 and RMB19,708,000 respectively which are allocated to the cash-generating-unit of Cable King Limited and its subsidiaries ("CGU") as at 31 December 2016. Management performed impairment assessment of CGU and concluded that no impairment on the goodwill is necessary to provide. This conclusion was based on value-in-use model that required management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth and capital expenditure. Independent external valuation reports were obtained in order to support management's estimates.	Our procedures in relation to the management's impairment assessment included: • Evaluating the independent external valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Checking, on sampling basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter

Revenue recognition of game operation

Refer to Notes 3, Note 7 and Note 31 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Online and mobile game revenue of approximately RMB220,908,000 for the year ended 31 December 2016 was recognised after the actual usage of the virtual currency in the games. Income received in respect of unutilised virtual currency is recognised as deferred revenue. Management is therefore required to make estimation in respect of average selling price of virtual currency. The determination of average selling price of virtual currency require significant management estimation.	Our procedure in relation to the revenue recognition of game operation: • Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for the game operation; • Obtaining the game operation data used for calculation of game operation revenue and defer revenue generated by game operation system; • Recalculating the game operation revenue and deferred revenue base on game operation data reference to Group's revenue recognition policies; and • Checking on sampling basis, the game players in game payments and cash receipt. We consider revenue recognition consistent with the Group's revenue recognition policies.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon. ("Other Information").

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 DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 the 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 Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion 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 judgment and maintain professional skepticism 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.

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

From the matters communicated with 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 auditors' 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 director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practicing Certificate Number: P06417

Hong Kong, 30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	7	868,593	615,372
Cost of sales		(602,711)	(466,863)
Gross profit		265,882	148,509
Other revenue	8	2,428	1,886
Other income	9	3,595	7,902
Selling and distribution expenses		(96,752)	(29,126)
Administrative expenses		(43,418)	(27,377)
Amortisation of intangible assets	19	(27,438)	–
Change in fair value of derivative financial instruments		4,030	(624)
Change in fair value of contingent consideration payable	30	(51,963)	–
Loss on modification of convertible bonds		–	(7,021)
Loss on early redemption of promissory notes		(5,185)	–
Equity-settle share option expenses		(2,389)	(15,931)
Profit from operating activities		48,790	78,218
Finance costs	12	(26,269)	(8,374)
Profit before tax	10	22,521	69,844
Income tax expenses	13	(14,600)	(15,079)
Profit for the year		7,921	54,765
Other comprehensive loss for the year, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(21,929)	(661)
Other comprehensive loss for the year, net of tax		(21,929)	(661)
Total comprehensive (loss)/income for the year, net of tax		(14,008)	54,104
Profit attributable to owners of the Company		7,921	54,765
Total comprehensive (loss)/income attributable to owners of the Company		(14,008)	54,104
Earnings per share attributable to owners of the Company			
– Basic (RMB cents)	15	0.77	6.85
– Diluted (RMB cents)	15	0.20	6.77

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	16	147,727	138,996
Prepaid lease payments	17	2,255	2,315
Goodwill	18	429,857	–
Intangible assets	19	19,708	–
Long-term prepayment	20	4,592	–
		604,139	141,311
Current assets			
Inventories	21	28,122	25,160
Trade receivables	22	155,368	147,540
Prepayments, deposits and other receivables	23	71,427	16,422
Derivative financial instruments	24	12,945	5,796
Pledged bank deposits	25	59,460	80,602
Cash and bank balances	25	374,335	266,206
		701,657	541,726
Current liabilities			
Trade, bills, other payables and accruals	26	138,405	113,640
Bank borrowings	27	91,110	21,270
Derivative financial instruments	24	4,277	3,434
Promissory notes	28	178,804	67,673
Convertible bonds	29	32,868	19,346
Contingent consideration payable	30	155,568	–
Deferred revenue	31	57,617	–
Tax payables		3,925	3,897
		662,574	229,260
Net current assets		39,083	312,466
Total assets less current liabilities		643,222	453,777
Non-current liabilities			
Deferred taxation	32	2,980	55
Promissory note	28	60,342	–
Bank borrowings	27	–	102,700
		63,322	102,755
Net assets		579,900	351,022
Capital and reserves attributable to owners of the Company			
Share Capital	33	9,150	6,287
Reserves		570,750	344,735
Total equity		579,900	351,022

Approved by the Board on 30 March 2017 and signed on its behalf by:

Mr. Chen Wei Wei
Chairman

Mr. Sun Shao Hua
Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital RMB'000 Note 33(a)	Share premium RMB'000	Share option reserve RMB'000 Note 33b(i)	Convertible bonds reserve RMB'000 Note 33b(ii)	Statutory reserve RMB'000 Note 33b(iii)	Other reserve RMB'000 Note 33b(iv)	Exchange reserve RMB'000 Note 33b(v)	Retained profit RMB'000	Total RMB'000
At 1 January 2015	6,287	64,588	4,274	–	20,105	15,901	2,951	162,063	276,169
Profit for the year	–	–	–	–	–	–	–	54,765	54,765
Other comprehensive loss for the year	–	–	–	–	–	–	(661)	–	(661)
Total comprehensive (loss)/income for the year	–	–	–	–	–	–	(661)	54,765	54,104
Equity-settled share option expenses	–	–	15,931	–	–	–	–	–	15,931
Issue of convertible bonds	–	–	–	915	–	–	–	–	915
Deferred tax on convertible bonds	–	–	–	(164)	–	–	–	–	(164)
Derecognition upon modification of convertible bonds	–	–	–	(751)	–	–	–	751	–
Recognition upon modification of convertible bonds	–	–	–	4,067	–	–	–	–	4,067
Transfer of statutory reserve	–	–	–	–	9,037	–	–	(9,037)	–
At 31 December 2015 and 1 January 2016	6,287	64,588	20,205	4,067	29,142	15,901	2,290	208,542	351,022
Profit for the year	–	–	–	–	–	–	–	7,921	7,921
Other comprehensive loss for the year	–	–	–	–	–	–	(21,929)	–	(21,929)
Total comprehensive (loss)/income for the year	–	–	–	–	–	–	(21,929)	7,921	(14,008)
Equity-settled share option expenses	–	–	2,389	–	–	–	–	–	2,389
Issue of shares in relation to acquisition of subsidiaries (Note 34)	2,635	221,309	–	–	–	–	–	–	223,944
Issue of convertible bonds	–	–	–	2,183	–	–	–	–	2,183
Transaction costs attributable to issue of convertible bonds	–	–	–	(34)	–	–	–	–	(34)
Deferred tax of convertible bonds	–	–	–	(180)	–	–	–	–	(180)
Issue of ordinary shares upon conversion of convertible bonds	228	15,686	–	(1,330)	–	–	–	–	14,584
Transfer of reserve	–	–	–	–	7,727	–	–	(7,727)	–
At 31 December 2016	**9,150**	**301,583**	**22,594**	**4,706**	**36,869**	**15,901**	**(19,639)**	**208,736**	**579,900**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		22,521	69,844
Adjustments for:			
Amortisation of prepaid lease payments	10	60	60
Amortisation of intangible assets	10, 19	27,438	–
Depreciation of property, plant and equipment	10, 16	13,985	14,152
Equity-settled share option expenses		2,389	15,931
Finance costs	12	26,269	8,374
Change in fair value of derivative financial instruments		(4,030)	624
Change in fair value of contingent consideration payable		51,963	–
Loss on modification of convertible bonds		–	7,021
Loss on early redemption of promissory notes		5,185	–
Loss on disposal of property, plant and equipment	10	–	2
Interest income	8	(977)	(610)
Operating cash flows before movement in working capital		144,803	115,398
Increase in inventories		(2,962)	(7,270)
Increase in trade receivables		40,213	(41,743)
Increase in prepayments, deposits and other receivables		(25,964)	(6,830)
(Decrease)/increase in trade, bills, other payables and accruals		(41)	17,577
Increase in deferred revenue		22,002	–
(Increase)/decrease in pledged bank deposits		24,604	(77,119)
Cash generated from operations		202,655	13
PRC tax paid		(18,554)	(10,360)
Net cash generated from/(used in) operating activities		184,101	(10,347)
Investing activities			
Interest received		977	610
Proceeds from disposal of property, plant and equipment		–	4
Prepayment for long-term prepayment		(2,445)	–
Purchase of property, plant and equipment	16	(22,546)	(118)
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	34	(16,668)	–
Net cash (used in)/generated from investing activities		(40,682)	496
Financing activities			
Interest paid on convertible bonds and promissory note		(12,373)	(3,413)
Proceeds from bank borrowings		17,000	123,970
Repayments of bank borrowings		(49,860)	(11,000)
Bank borrowings interest paid		(5,865)	(4,603)
Net proceeds from issue of promissory notes		99,029	61,677
Net proceeds from issue of convertible bond		24,858	15,417
Early redemption of promissory note		(111,228)	–
Net cash (used in)/generated from financing activities		(38,439)	182,048
Net increase in cash and cash equivalents		104,980	172,197
Cash and cash equivalents at the beginning of the year		266,206	92,481
Effect of exchange rate changes on the balances of cash held in foreign currencies		3,149	1,528
Cash and cash equivalents at the end of the year		374,335	266,206

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

The Company was incorporated in Cayman Islands on 12 July 2013 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Unit 2, 7th Floor, Wah Hing Commercial Building, 283 Lockhart Road, Wanchai, Hong Kong. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 13 January 2014.

The Company acts as an investment holding company while its principal operating subsidiaries are engaged in manufacturing and sales of packaging materials and development, distribution and operation of mobile gaming products.

The Directors of the Company consider the parent and the ultimate holding company of the Company to be Novel Blaze Limited ("Novel Blaze"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability. Its ultimate controlling party is Ms. Zheng Xue Xia, who is a spouse of the executive director of the Company, Mr. Sun Shao Hua.

The consolidated financial statements are presented in Renminbi ("RMB") and rounded to the nearest thousand (RMB'000), unless otherwise stated. RMB is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group. The functional currency of the Company is Hong Kong dollars ("HK$"). The Directors consider that choosing RMB as the presentation currency best suits the needs of the shareholders and investors.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). A summary of the new and revised HKFRSs are set out as below:

HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28, amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, and amendments to HKAS 27, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

  (i) the materiality requirements in HKAS 1;

  (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

  (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

  (iv) the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit and loss.

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the assets. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) The Annual Improvements to HKFRs 2012-2014 Cycle issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

  - HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HKAS 7 (Amendments)	Disclosure Initiative[1]
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 4 (Amendments)	Insurance Contracts[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date is determined but available for adoption
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 – Financial Instruments

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 – Financial Instruments (continued)

Key requirements of HKFRS 9 are described below: (continued)

- With regard to the measurement of financial liabilities designated as at 'fair value through profit or loss' (FVTPL), HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components.

The Directors anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 – Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer
– Step 2: Identify the performance obligations in the contract
– Step 3: Determine the transaction price
– Step 4: Allocate the transaction price to the performance obligations in the contract
– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 – Leases

HKFRS 16 supersedes HKAS 17 ''Leases'', HK(IFRIC) – Int 4 ''Determining whether an Arrangement contain a Lease'', HK(SIC) – Int 15 ''Operating Lease – Incentives'' and HK(SIC) – Int 27 ''Evaluating the Substance of Transactions Involving the Legal Form of a Lease''.

HKFRS 16 eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with HKAS 17 ''Leases''. Under HKFRS 16, leases are recorded on the combined statements of financial position by recognising a liability for the present value of its obligation to make future lease payments with an asset (comprised of the amount of lease liability plus certain other amounts) either being disclosed separately in the combined statements of financial position (within right-of-use assets) or together with property, plant and equipment. The most significant effect of the new requirements will be an increase in recognised lease assets and financial liabilities.

There are some exemptions. HKFRS 16 contains options which do not require a lessee to recognise assets and liabilities for (a) short term leases (i.e. lease of 12 months or less, including the effect of any extension options) and (b) leases of low value assets (for example, a lease of a personal computer).

HKFRS 16 substantially carries forward the lessor's accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows: (a) if the head lease is a short-term lease that the entity, as a lessee, the sublease shall be reclassified as an operating lease; (b) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

HKFRS 16 clarifies that a lessee separates lease components and service components of a contract, and applies the lease accounting requirements only to the lease components.

Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of many of the Group's lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed to the Financial Information. As set out in Note 40 to the consolidated financial statements, total operating lease commitment of the Group in respect of office premises at 31 December 2016 amounted to approximately RMB3,235,000. The Directors do not expect the application of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's result but it is expected that certain portion of these lease commitments will be required to be recognised in the combined statements of financial position as right-of-use assets and lease liabilities.

The Group is in the process of assessing the potential impact of other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs will have a significant impact on the Group's financial performance and position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs 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 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 assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates 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.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company in which the Company directly or indirectly controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's financial statements at cost less impairment loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue excludes value-added tax and is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Mobile and web games operation – Gross basis (Exclusive operation)

The Group operates certain games developed by game developer and self-developed mobile and web games through the Group's platform and cooperation with various third-party game distribution and publishing platforms including online application stores, web-based and mobile game portals (the "Game Distribution Channels"). The Group is responsible for technical support. The platforms are responsible for distribution and, collections from players.

The Group operates mobile and web games that allow players to play for free. Players can purchase virtual currency to obtain in-game items and premium features, commonly known as virtual items, to enhance their game-playing experience. Players can pay for virtual currency using different payment platforms. The Game Distribution Channels and game developer are entitled to the relevant service fees which are withheld and deducted from the gross proceeds of virtual currency collected from the players, with the net amounts remitted to the Group. The portion of the proceeds received by Group is calculated based on the payments collections from players and the agreed share ratio in contracts with Game Distribution Channels and game developer. The consideration received for the purchase of the virtual currency or virtual items is non-refundable and the related contracts are non-cancellable. For the self-developed mobile and web game, such consideration received is initially included in deferred revenue on the consolidated statement of financial position. The Group recognises revenue on a gross basis when actual usage of virtual currency by the customers and recognise the relevant service fees and revenue-sharing to Game Distribution Channels and game developer as cost of sales in the consolidated statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Mobile and web games operation – Net basis (Joint operation)

The virtual items are considered value-added services and rendered over a pre-specified period or throughout the whole game life. The revenue from these virtual items is recognised either upon consumption or ratably over the practical usage period predetermined in the game or throughout the estimated use life of paying players as appropriate. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of the virtual items. Once virtual currency is charged to a player's personal mobile game account, it can be used by the player until the specific game has been closed down. Unused balance of virtual currency is recognised as revenue when the specific game has been closed down.

The Group operation certain web games developed by other game developers under joint operation, the Group is only responsible for promoting the game and is considered as the agents of the game developers. The Group receives commission based on a certain portion of the purchase amount for in-game currency remitted by players through Game Distribution Channels. After deducting the commission charged by the Game Distribution Channels and the sharing amount to game developers, the Group recognize the rest of the amount. Revenue is measured at the amount of the commission and recognised upon the purchase action by players.

Mobile and web game licensing

The Group licenses its self-developed games to other third-party game operators and generally receives revenue in forms of initial license fees, monthly revenue-based fees under revenue-sharing arrangement or a combination and sales of copyright (source code) of game. The initial license fee is generally a fixed amount and recognized ratably over the term of the license. The revenue-based fees under revenue-sharing arrangement are generally equal to a fixed percentage of the revenues generated by the game operators from the sale of virtual items and are recognized when the game operators provide the Group the monthly billing confirmation.

Other services income

Revenue from other services income is recognised when the relevant service is provided.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Items included in the consolidated financial statements of each of the companies now comprising the Group are measured using the currency of the primary environment in which the companies operate (the "functional currency").

In preparing the financial information of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. B) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of exchange reserve.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit costs (continued)

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China (the "PRC"), including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Share option expenses

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible persons for their contributions to the Group.

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property and equipment, less their residual values over their estimated useful lives, using straight-line method.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

	Useful lives
Machinery	10 years
Computer and office equipment	5 years
Motor vehicles	5 years
Buildings	20 years
Leasehold improvements	Over the lease terms

Intangible assets

(a) Game

Game is initially recognized and measured at cost less amortization. Acquired game licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software, and are amortized over their estimated useful lives of 1 year.

(b) Research and development costs

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets other than goodwill (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired

Recoverable amount is the higher of fair value less costs to sell 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at FVTPL, 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at fair value though profit or loss when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading may be designated as at fair value though profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 5.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables, pledged bank deposits and cash and cash balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

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

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liabilities are designated at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities (including trade, bills, other payables and accruals, bank borrowings and amount due to a director) are subsequently measured at amortised cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or losses on fair value changes is recognised in profit or loss.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contacts and the host contacts are not measured at fair value with changes in fair value recognised in profit or loss.

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities, equity and derivatives in accordance with the substance of the contractual arrangements and the definitions of a financial liability, an equity instrument and derivative financial instruments. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and bank balances

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

For the purpose of the consolidated statements of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted to use.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties transactions

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following condition applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsorship employers are also related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year, are discussed below:

Income taxes and deferred taxation

The Company is subject to PRC income taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, no impairments on goodwill and intangible assets were made.

Determination of fair values of identifiable intangible assets arising from the business combination

The acquired identifiable assets and liabilities had to be measured at their respective fair values as at the date of acquisition. The difference between the cost of acquisition and the fair value of the Group's share of net assets so acquired should be recognised as goodwill at the end of the reporting period or recognised in the consolidated statement of profit or loss and other comprehensive income. In the absence of an active market for the business combination/acquisition transactions undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made their estimates according to the valuation results produced by external valuers. During year ended 31 December 2016, the fair value of identifiable intangible assets arising from the acquisitions of Cable King Group Limited and its subsidiaries ("Cable King Group") are approximately RMB47,146,000. Details of the identifiable intangible assets are disclosed in Note 19.

Impairment of inventories

The management reviews an ageing analysis at the end of the reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes impairment for obsolete and slow-moving items, when necessary. During the year, no impairments on inventories were made.

Fair value measurement of derivative financial instruments

The derivative financial instruments have been valued based on valuation technique. The valuation required the Group to make estimates about earning volatility, earning growth rate and discount rate, and hence they are subject to uncertainty. Further details are contained in Notes 5 and 24 to the consolidated financial statements.

Self-developed mobile and web game operation revenue recognition

Self-developed mobile and web game revenue is recognised based on the actual consumption of the virtual items. Income received in respect of unutilised virtual items is recognised as deferred revenue. The Group determines the deferred revenue base on amount of unutilised virtual items and estimated average selling price of virtual currency.

For games operate by the Group and data of unutilised virtual items and currency are applicable, the Group recognise deferred revenue base on amount of unutilised virtual items and virtual currency; and estimated average selling price of virtual currency.

Serval in game promotion was conducted to promote purchase of virtual currency. In assessing the amount of average sales value for the virtual currency, management considers the promotional virtual currency and virtual currency purchased by game player are same. The average sales value of virtual currency is then determined by divide total income received to the total virtual currency granted to game player. If the actual sales value of the virtual currency differs from management's assessment, the amount of deferred income as well as mobile and web game operation revenue recognised would be affected.

5. FINANCIAL INSTRUMENTS

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follow:

	2016 RMB'000	2015 RMB'000
Financial assets		
At amortised cost		
Loan and receivables		
– Trade receivables	155,368	147,540
– Other receivables	1,566	–
– Pledged bank deposits	59,460	80,602
– Cash and bank balances	374,335	266,206
	590,729	494,348
At fair value through profit or loss		
Derivative financial instruments	12,945	5,796
	603,674	500,144
Financial liabilities		
At amortised cost		
– Trade, bills, other payables and accruals	138,405	113,640
– Promissory note	239,146	67,673
– Convertible bonds	32,868	19,346
– Bank borrowings	91,110	123,970
	501,529	324,629
At fair value through profit or loss		
– Derivative financial instruments	4,277	3,434
– Contingent consideration payable	155,568	–
	159,845	3,434
	661,374	328,063

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies

The Company's major financial instruments include trade receivables, other receivables, pledged bank deposits, cash and bank balances, trade, bills, other payables and accruals, bank borrowings, promissory note, convertible bonds, derivative financial instruments and contingent consideration payable. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk on the trade receivables from its major customers. The management is of the view that these trade debtors of the Group have good trade record without default history and consider that the trade receivables from these customers is recoverable.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken on a timely basis and adequate impairment losses are made for irrecoverable amounts overdue. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

Substantially all of the Group's cash and bank balances are mainly deposited in the state controlled PRC banks which the Directors assessed the credit risk to be insignificant.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 year RMB'000	More than 5 year RMB'000	Total undiscounted cash flows RMB'000
31 December 2016							
Non-derivative financial liabilities							
Trade, bills, other payables and accruals	–	138,405	138,405	–	–	–	138,405
Contingent consideration payable	14.48	155,568	161,204	–	–	–	161,204
Promissory notes	9.40	239,146	191,018	5,640	64,472	–	261,130
Convertible bonds	19.86	32,868	35,583	–	–	–	35,583
Bank borrowings	5.38	91,110	92,831	–	–	–	92,831
		657,097	619,041	5,640	64,472	–	689,153
Derivative financial liability							
Derivative financial instrument	–	4,277	–	–	–	–	–

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Liquidity risk (continued)

	Weighted average interest rate %	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 year RMB'000	More than 5 year RMB'000	Total undiscounted cash flows RMB'000
31 December 2015							
Non-derivative financial liabilities							
Trade, bills, other payables and accruals	–	113,640	113,640	–	–	–	113,640
Promissory note	6.30	67,673	69,670	–	–	–	69,670
Convertible bond	14.31	19,346	20,394	–	–	–	20,394
Bank borrowings	5.83	123,970	27,818	90,869	15,044	–	133,731
		324,629	231,522	90,869	15,044	–	337,435
Derivative financial liability							
Derivative financial instrument	–	3,434	–	–	–	–	–

Interest rate risk

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group currently does not have any interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

No sensitivity analysis is prepared since the Group is not subject to significant cash flow interest rate risk and fair value interest rate risk.

5. FINANCIAL INSTRUMENTS (continued)

Financial risk management objective and policies (continued)

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The main operations of the Group were in the PRC and most of the transactions were denominated in RMB. The Company did not use any derivative financial instruments to hedge for its foreign exchange risk exposure during the year.

The foreign currency assets and liabilities held by the Group are not material compared to the total assets and liabilities. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB, and the proportion of foreign currency transactions are not significant to the Group.

The Directors consider that the currency risk of the Group's operations is immaterial due to the relatively low proportion of the Group's foreign currency denominated assets, liabilities, income and expense, as compared to the Group's total assets, liabilities, income and expense. Hence, no further analysis is presented.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

(i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

(ii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

(iii) the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Except for the liability component of convertible bonds which recorded at amortised cost as below, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's consolidated statement of financial position approximate to their fair values.

	31 December 2016		31 December 2015	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Convertible bonds	**32,868**	**34,406**	19,346	19,031

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value as at 31 December 2016, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
31 December 2016				
Assets				
Derivative financial instruments	–	–	12,945	12,945
Liability				
Derivative financial instrument	–	–	4,277	4,277
31 December 2015				
Assets				
Derivative financial instruments	–	–	5,796	5,796
Liability				
Derivative financial instrument	–	–	3,434	3,434

There were no transfers between Level 1, 2 and 3 in both years.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

Some of the Group's and the Company's financial assets and financial liabilities are measured at fair value at 31 December 2016. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 31 December 2016 RMB'000	31 December 2015 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets					
Derivative financial instruments: – Term extension derivative embedded in the promissory note 1	–	5,543	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 8.52%; share price volatility of 59.35%; price-to-EBITDA ratio of 5.67 (Note (i))
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 1	142	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 8.52%; share price volatility of 59.35%; price-to-EBITDA ratio of 5.67 (Note (ii))
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 2	189	–	Level 3	Hull White model with Trinomial Tree method **Key input:** Discount rate	Discount rate of 9.44% (Note (iii))
Derivative financial instruments: – Term extension derivative embedded in the promissory note 3	705	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 9.09%; share price volatility of 60.01%; price-to-EBITDA ratio of 5.67 (Note (iv))

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

	Fair value as at 31 December 2016 RMB'000	31 December 2015 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial assets (continued)					
Derivative financial instruments: – Redemption option derivative embedded in the promissory note 3	–	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 9.09%; share price volatility of 60.01%; price-to-EBITDA ratio of 5.67 (Note (v))
Derivative financial instruments: – Redemption option derivative embedded in the convertible bond 1	7,857	253	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 8.52%; share price volatility of 59.35%; price-to-EBITDA ratio of 5.67 (Note (vi))
Derivative financial instruments: – Redemption option derivative embedded in the convertible bond 2	4,052	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 9.09%; share price volatility of 60.01%; price-to-EBITDA ratio of 5.67 (Note (vii))

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

	Fair value as at 31 December 2016 RMB'000	31 December 2015 RMB'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
Financial liabilities					
Derivative financial instruments: – Term extension derivative embedded in the promissory note 1	99	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 8.52%; share price volatility of 59.35%; price-to-EBITDA ratio of 5.67 (Note (i))
Derivative financial instruments: – Term extension derivative embedded in the convertible bond 1	2,330	3,434	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 8.52%; share price volatility of 59.35%; price-to-EBITDA ratio of 5.67 (Note (viii))
Derivative financial instruments: – Term extension derivative embedded in the convertible bond 2	1,848	–	Level 3	Black-Scholes model with Trinomial Tree method **Key inputs:** Discount rate, Share price volatility, Price-to-EBITDA ratio	Discount rate of 9.09%; share price volatility of 60.01%; price-to-EBITDA ratio of 5.67 (Note (ix))

Notes:

(i) An increase in the discount rate in isolation would result in a change from liabilities to assets of term extension derivative embedded in the promissory note 1.

An increase in the share price volatility in isolation would not result in any change in the fair value measurement of term extension derivative embedded in the promissory note 1.

An increase in the price-to-EBITDA ratio in isolation would not result in any change in the fair value measurement of term extension derivative embedded in the promissory note 1.

(ii) An increase in the discount rate adopted in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 1.

An increase in the share price volatility in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 1.

An increase in the price-to-EBITDA ratio in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 1.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

Notes: (continued)

(iii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the promissory note 2.

(iv) An increase in the discount rate in isolation would result in an increase in the fair value measurement of term extension derivative embedded in the promissory note 3.

An increase in the share price volatility in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the promissory note 3.

An increase in the price-to-EBITDA ratio in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the promissory note 3.

(v) An increase in the discount rate in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 3.

An increase in the share price volatility in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 3.

An increase in the price-to-EBITDA ratio in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the promissory note 3.

(vi) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 1.

An increase in the share price volatility in isolation would result in an increase in the fair value measurement of redemption option derivative embedded in the convertible bond 1.

An increase in the price-to-EBITDA ratio in isolation would not result in any change in the fair value measurement of redemption option derivative embedded in the convertible bond 1.

(vii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 2.

An increase in the share price volatility in isolation would result in an increase in the fair value measurement of redemption option derivative embedded in the convertible bond 2.

An increase in the price-to-EBITDA ratio in isolation would result in a decrease in the fair value measurement of redemption option derivative embedded in the convertible bond 2.

(viii) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 1.

An increase in the share price volatility in isolation would not result in any change in the fair value measurement of term extension derivative embedded in the convertible bond 1.

An increase in the price-to-EBITDA ratio in isolation would not result in any change in the fair value measurement of term extension derivative embedded in the convertible bond 1.

5. FINANCIAL INSTRUMENTS (continued)

Fair value estimation (continued)

Notes: (continued)

(ix) An increase in the discount rate in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

An increase in the share price volatility in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

An increase in the price-to-EBITDA ratio in isolation would result in a decrease in the fair value measurement of term extension derivative embedded in the convertible bond 2.

Please refer to Notes 28 and 29 for the movement of the fair values of the financial assets and financial liabilities included in Level 3 categories.

Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group manages the capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years.

The Directors monitor capital using a gearing ratio, which is total debts divided by total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods are as follows:

	2016 **RMB'000**	2015 RMB'000
Total debts	**363,124**	210,989
Total equity	**579,900**	351,022
Gearing ratio	**62.6%**	60.1%

6. OPERATING SEGMENT

The board of directors is the group's chief operating decision makers.

The Group engaged in two operating segments which are sales of paper-based packaging products and development, distribution and operation of mobile gaming products. The chief operating decision makers allocated resources and assessed performance based on the profit for the year for the entire business comprehensively.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales for the year ended 31 December 2016 (2015: Nil).

Segment revenues and results

The following is an analysis of the Group's turnover and results by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile gaming products		Consolidated	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Revenue	**647,685**	615,372	**220,908**	–	**868,593**	615,372
Segment results	**69,218**	89,660	**60,815**	–	**130,033**	89,660
Equity-settled share option expenses					**(2,389)**	(15,931)
Unallocated corporate income					**4,033**	12
Unallocated corporate expenses					**(88,752)**	(125)
Unallocated finance costs					**(20,404)**	(3,772)
Profit before tax					**22,521**	69,844
Income tax expenses					**(14,600)**	(15,079)
Profit for the year					**7,921**	54,765

6. OPERATING SEGMENT (continued)

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	Paper-based packaging products		Development, distribution and operation of mobile gaming products		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**639,115**	602,388	**156,990**	–	**796,105**	602,388
Unallocated corporate assets					**509,691**	80,649
Total assets					**1,305,796**	683,037
Segment liabilities	**204,514**	236,661	**75,574**	–	**280,088**	236,661
Unallocated corporate liabilities					**445,808**	95,354
Total liabilities					**725,896**	332,015

The Company's and some dormant companies' assets are not considered to be segment assets for reporting to the chief decision makers as they are managed by the central treasury function.

The Company's and some dormant companies' liabilities are not considered to be segment liabilities for reporting to the chief decision makers as they are managed by the central treasury function.

Other segment information

	Paper-based packaging products RMB'000	Development, distribution and operation of mobile gaming products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Capital expenditure	(22,329)	(217)	–	(22,546)
Depreciation of property, plant and equipment	(13,870)	(82)	(33)	(13,985)
Amortisation of intangible assets	–	(27,438)	–	(27,438)
Equity-settled share option expenses	–	–	(2,389)	(2,389)
Change in fair value of derivative financial instruments	–	–	4,030	4,030
Change in fair value of contingent consideration payable	–	–	(51,963)	(51,963)
Finance costs	(5,848)	(17)	(20,404)	(26,269)

During the years ended 31 December 2016 and 2015, all revenue is derived from customers in the PRC.

As at 31 December 2016 and 2015, most of the Group's non-current assets were located in the PRC. Accordingly, no analysis of the Group's result and assets by geographical area is disclosed.

Included in revenue arising from development, distribution and operation of mobile gaming products for the year ended 31 December 2016, approximately RMB62,110,000 (2015: RMB35,983,000 from sale of paper-based packaging products) are revenue arose from the Group's largest single customer. No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2016 (2015: Nil).

7. REVENUE

Revenue represents the net amounts received and receivable for goods sold, net of discounts and excludes value-added tax, service fees and commission received and sales of in-game virtual items:

An analysis of the Group's revenue is as follows:

	2016 RMB'000	2015 RMB'000
Sales of paper-based packaging products	647,685	615,372
Development, distribution and operation of mobile gaming products	220,908	–
	868,593	615,372

8. OTHER REVENUE

	2016 RMB'000	2015 RMB'000
Sales of residual materials	1,451	1,276
Bank interest income	977	610
	2,428	1,886

9. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Tax concession (Note a)	3,202	7,891
Government subsidies (Note b)	320	11
Sundry income	73	–
	3,595	7,902

Notes:

(a) Tax concession represents another kind of government subsidy given by the local government with reference to the amount of value-added tax, land use tax and enterprise income tax paid in the PRC.

(b) Government subsidies represent the financial subsidies given by the local government to encourage the Group's operation in the PRC. No unfulfilled condition and other contingencies attached to these government subsidies.

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2016 RMB'000	2015 RMB'000
Staff costs:		
Employee benefit expense (including directors' remuneration (Note 11)):		
Wages and salaries	44,835	38,698
Retirement benefit schemes contributions	6,167	5,174
Equity-settled share option expenses (Note 33(d))	2,389	15,931
	53,391	59,803
Other items:		
Cost of inventories recognised as expenses (Note 21)	511,145	466,863
Depreciation of property, plant and equipment (Note 16)	13,985	14,152
Auditor's remuneration		
– Audit service	1,112	800
– Other service	685	–
Amortisation of prepaid lease payments (Note 17)	60	60
Amortisation of intangible assets (Note 19)	27,438	–
Loss on disposal of property, plant and equipment	–	2
Minimum lease payments under operating leases of rented premises	962	428
Research and development costs	10,277	3,180

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2016 RMB'000	2015 RMB'000
Fees	300	281
Other emoluments:		
Salaries, allowances and benefits in kind	4,210	5,924
Retirement benefit schemes contributions	62	43
Total	4,572	6,248

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(b) Directors' emoluments

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
31 December 2016				
Executive Directors				
Mr. Chen Wei Wei	–	1,633	27	1,660
Ms. Hu Li Yu (Resigned on 18 March 2016)	–	190	4	194
Ms. Zheng Li Fang (Appointed on 18 March 2016)	–	730	16	746
Mr. Sun Shao Hua	–	1,657	15	1,672
Independent Non-executive Directors				
Mr. Liu Da Jin	86	–	–	86
Mr. Ma Yiu Ho, Peter	128	–	–	128
Mr. Wu Ping	86	–	–	86
	300	4,210	62	4,572

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
31 December 2015				
Executive Directors				
Mr. Chen Wei Wei	–	2,445	23	2,468
Ms. Hu Li Yu	–	2,031	10	2,041
Mr. Sun Shao Hua	–	1,448	10	1,458
Independent Non-executive Directors				
Mr. Liu Da Jin	80	–	–	80
Mr. Ma Yiu Ho, Peter	121	–	–	121
Mr. Wu Ping	80	–	–	80
	281	5,924	43	6,248

The Group does not have any chief executive officer during the years.

During the years, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the years.

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees

The five highest paid employees of the Group are analysed as follows:

	2016 RMB'000	2015 RMB'000
Directors	4,078	5,967
Non-directors	1,547	1,504
	5,625	7,471

The five highest paid individuals in the Group during both years included 3 (2015: 3) directors; details of whose emoluments are set out in Note 11(b). The emoluments of the remaining 2 (2015:2) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind (Note)	1,532	1,486
Retirement benefit schemes contributions	15	18
	1,547	1,504

Note: Benefits in kind included the share option granted.

The number of these non-directors, being the five highest paid employees whose remuneration fell within the following band is as follows:

	2016	2015
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$2,000,000	1	1
	2	2

11. DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS (continued)

(c) Five highest paid employees (continued)

Included in the five highest paid employees, the number of senior management (being the non-director employees) whose remuneration fell within the following band is as follows:

	2016	2015
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$2,000,000	1	–
	1	1

Note: The band was denominated in HK$ and the remunerations of the respective employees was translated at the average rate of RMB to HK$ for each year for the disclosure purpose.

During the years, no emoluments were paid by the Group to the non-directors, being the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the non-director, highest paid employees waived or agreed to waive any emoluments during the years.

12. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest expenses on bank borrowings	5,865	4,603
Imputed interest on promissory notes	15,963	2,206
Imputed interest on convertible bonds	4,441	1,565
	26,269	8,374

13. INCOME TAX EXPENSES

	2016 RMB'000	2015 RMB'000
Current tax		
– The PRC Enterprise Income Tax	18,101	15,217
– Under provision in prior year	323	–
	18,424	15,217
Deferred tax		
– Current year (Note 32)	(3,824)	(138)
Total income tax recognised in profit or loss	14,600	15,079

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year. No Hong Kong profits tax is provided for as the Group does not have any assessable profit from the Group's operation located in Hong Kong.

The PRC subsidiary is subject to the PRC Enterprise Income Tax at 25% during the year (2015: 25%). Pursuant to the relevant laws and regulations in the PRC, the qualified PRC subsidiary was entitled to preferential treatment on corporate income tax enjoyed by high and new technology enterprise for three years from 2014 to 2016. As such, the applicable corporate income tax rate for the qualified PRC subsidiary has been reduced from 25% to the preferential tax rate of 15% for the three years from 2014 to 2016.

In accordance with various approval documents issued by the PRC government authority, a PRC subsidiary is entitled to enjoy three years preferential income tax rate of 12.5%. The three years' preferential income tax rate of this PRC subsidiary begins from 1 January 2016.

13. INCOME TAX EXPENSES (continued)

The reconciliation between the income tax expenses and accounting profit at applicable income tax rates is as follows:

	2016						2015					
	Hong Kong		The PRC		Total		Hong Kong		The PRC		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(83,435)		105,956		22,521		(19,731)		89,575		69,844	
Tax at applicable income tax rate	(13,767)	16.5	26,490	25.0	12,723	56.5	(3,255)	16.5	22,394	25	19,139	27.4
Preferential income tax treatments	–	–	(12,118)	(11.4)	(12,118)	(53.8)	–	–	(10,145)	(11.3)	(10,145)	(14.5)
Tax effect of expenses or income not deductible or taxable for tax purpose	–	–	115	0.1	115	0.5	–	–	2,947	3.3	2,947	4.2
Under provision in prior year	–	–	323	0.3	323	1.4	–	–	–	–	–	–
Tax effect of tax loss not recognised	13,551	(16.2)	6	–	13,557	60.2	3,117	(15.8)	21	0.1	3,138	4.5
	(216)	0.3	14,816	14.0	14,600	64.8	(138)	0.7	15,217	17.1	15,079	21.6

14. DIVIDENDS

No dividend has been paid or proposed by the Group for the year ended 31 December 2016 and 2015.

Subsequent to the year ended 31 December 2016, a special dividend of 2.0 HK cents per share was declared on 30 March 2017.

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Basic earnings per share

	2016 RMB'000	2015 RMB'000
Profit attributable to the owners of the Company for the purpose of basic earnings per share	**7,921**	54,765

Diluted earnings per share

	2016 RMB'000	2015 RMB'000
Earnings used in the calculation of basic earnings per share	**7,921**	54,765
Interest on convertible bonds (after tax at 16.5%)	**3,287**	–
Fair value gain arising from convertible bonds	**(9,069)**	–
Earnings used in the calculation of diluted earnings per share	**2,139**	54,765

Number of shares

	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,024,163,414**	800,000,000
Effect of dilutive potential ordinary shares: Share options issued by the Company	**23,101,025**	9,043,367
Effect of dilutive potential ordinary shares: Conversion of convertible bonds	**31,748,589**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,079,013,028**	809,043,367

Basic earnings per share for the years ended 31 December 2016 and 2015 are calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of shares in issue during the year.

Diluted earnings per share for the years ended 31 December 2016 and 2015 are calculated by adjusting the weighted average number of shares in issue during the year to assume conversion of all dilutive potential ordinary shares. The weighted average number of ordinary shares as above are adjusted by the number of shares that would have been issued assuming the exercise of share options and conversion of convertible bonds.

For the year ended 31 December 2016, the computation of diluted earnings per share does not include the potential ordinary shares issue for settle the contingent consideration payable and the effect of exercise the share options with exercise price of $1.09 since it would result in an anti-dilutive effect on earnings per share.

For the year ended 31 December 2015, the computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds and the effect of exercise the share options with exercise price of $1.09 since it would result in an anti-dilutive effect on earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Machinery RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost							
At 1 January 2015	114,289	516	588	65,113	125	–	180,631
Additions	111	7	–	–	–	–	118
Disposals	–	–	(109)	–	–	–	(109)
Exchange realignment	–	–	–	–	7	–	7
At 31 December 2015 and 1 January 2016	114,400	523	479	65,113	132	–	180,647
Additions	17,729	233	264	–	–	4,320	22,546
Acquired on acquisition of subsidiaries (Note 34)	–	168	–	–	–	–	168
Exchange realignment	–	–	–	–	10	–	10
At 31 December 2016	132,129	924	743	65,113	142	4,320	203,371
Accumulated depreciation							
At 1 January 2015	18,519	356	427	8,245	50	–	27,597
Charge for the year	10,866	79	59	3,093	55	–	14,152
Eliminated on disposals	–	–	(103)	–	–	–	(103)
Exchange realignment	–	–	–	–	5	–	5
At 31 December 2015 and 1 January 2016	29,385	435	383	11,338	110	–	41,651
Charge for the year	10,709	120	53	3,093	10	–	13,985
Exchange realignment	–	–	–	–	8	–	8
At 31 December 2016	40,094	555	436	14,431	128	–	55,644
Carrying amount							
At 31 December 2016	**92,035**	**369**	**307**	**50,682**	**14**	**4,320**	**147,727**
At 31 December 2015	85,015	88	96	53,775	22	–	138,996

Assets pledged as security

As at 31 December 2016, machinery with a carrying amount of approximately RMB41,538,000 (2015: RMB58,366,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

As at 31 December 2016, no computer and office equipment (2015: RMB1,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

As at 31 December 2016, buildings with a carrying amount of approximately RMB50,462,000 (2015: RMB53,536,000) have been pledged to secure bank borrowings (Note 27) granted to the Group.

17. PREPAID LEASE PAYMENTS

Prepaid lease payments represent prepayment by the Group for the land use rights located in the PRC which are held on leases for 50 years.

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
Current assets (included in prepayments) (Note 23)	60	60
Non-current assets	2,255	2,315
	2,315	2,375

Amortisation on prepaid lease payments of approximately RMB60,000 (2015: RMB60,000) have been charged to the administrative expenses in profit or loss for the year.

18. GOODWILL

	RMB'000
Cost	
At 31 December 2015 and 1 January 2016	–
Arising on acquisition of subsidiaries (Note 34)	429,857
At 31 December 2016	**429,857**

Note: During the year ended 31 December 2016, goodwill amounted to approximately RMB429,857,000 were arisen from the acquisition of Cable King Group which are allocated to cash generating unit of development, distribution and operation of mobile gaming products business segment ("CGU"). For details, please refer to the Note 34.

The recoverable amount of Cable King Group has been determined based on value in use calculation. Such calculation is based on 1) profit forecast prepared by Cable King Group's management covering a five year period and 2) a discount rate of 23.26% per annum which reflects current market assessment of the time value of money and the credit risk specific to the cash-generating unit. The cash flows beyond five year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecast and does not exceed the long term average growth rate for the relevant industry. Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 3% and stable gross margin, such estimation is based on the CGU's past performance and its management's expectations for the market development. The management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of Cable King Group to exceed aggregate recoverable amount of Cable King Group.

The recoverable amount of the CGU exceeds the carrying amount of Cable King Group to which the goodwill is allocated and no impairment charge was necessary.

19. INTANGIBLE ASSETS

	Game Intellectual Properties and Licences RMB'000	Online Platform RMB'000	Total RMB'000
Cost			
At 1 January 2015, 31 December 2015 and 1 January 2016	–	–	–
Acquisition of subsidiaries (Note 34)	46,886	260	47,146
At 31 December 2016	46,886	260	47,146
Accumulated amortisation			
At 1 January 2015, 31 December 2015 and 1 January 2016	–	–	–
Charge for the year	(27,261)	(177)	(27,438)
At 31 December 2016	(27,261)	(177)	(27,438)
Carrying amount			
At 31 December 2016	**19,625**	**83**	**19,708**
At 31 December 2015	–	–	–

20. LONG-TERM PREPAYMENT

Long-term prepayment represents the expenditure incurred on developing new gaming products but not yet met the recognition requirements of intangible asset.

21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**20,413**	15,766
Work in progress	**3,876**	2,105
Finished goods	**3,833**	7,289
	28,122	25,160

22. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**155,368**	147,540

The following is an analysis of trade receivables by age, presented based on the invoice date. The analysis below is net of allowance for doubtful debts:

	2016 RMB'000	2015 RMB'000
0 – 30 days	**74,397**	65,424
31 – 60 days	**59,569**	64,145
61 – 90 days	**21,402**	17,971
	155,368	147,540

The average credit period on sales of goods is from 30 to 90 days. In determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated. Allowances for doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The Directors of the Company considered no provision for impairment is recognised during the year (2015: Nil) as these customers had no recent history of default.

The Group does not hold any collateral or other credit enhancements over these balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Of the trade receivables balance as at 31 December 2016 approximately RMB2,094,000 (2015: RMB6,781,000) is due from the Group's largest customer. At 31 December 2016, one customer represent more than 5% of the total balance of trade receivables (2015: Nil) and hence the concentration of credit risk is limited.

As at 31 December 2016, no trade receivables were past due but not impaired (2015: Nil).

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepaid lease payments (Note 17)	**60**	60
Prepayments, deposits and other receivables (Note)	**71,367**	16,362
	71,427	16,422

Note: The amounts mainly represented the prepayments of commission charges to game distribution channels and advertising expenses.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RMB'000	2015 RMB'000
Assets		
Term extension derivative embedded in Promissory Note 3 (Note 28)	**705**	5,543
Redemption option derivative embedded in Promissory Notes (Note 28)	**331**	–
Redemption option derivative embedded in Convertible Bonds (Note 29)	**11,909**	253
	12,945	5,796
Liability		
Term extension derivative embedded in Promissory Note 1 (Note 28)	**99**	–
Term extension derivative embedded in Convertible Bonds (Note 29)	**4,178**	3,434
	4,277	3,434

Redemption option derivative

Pursuant to the agreement in relation to issuance of the Convertible Bonds and Promissory Notes, redemption options are held by the Company. The Company may at any time from the date of issue of the Convertible Bonds and Promissory Notes up to the date immediately before the maturity date of the Convertible Bonds and Promissory Notes redeem the Convertible Bonds and Promissory Notes at amounts as described in Notes 28 and 29 respectively.

24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Term extension derivative

Pursuant to the agreement in relation to issue of Convertible Bonds and Promissory Notes, the Company may extend its Convertible Bonds and Promissory Notes (in whole or in part) for further one year from last day of the term or if applicable extend for a further one year, if (i) the Company's earnings before income tax, depreciation and amortisation for the financial year from the date of issue of the Convertible Bonds and Promissory Notes is not less than RMB52,000,000; and (ii) the consolidated net assets value of the Group is not less than RMB220,000,000. The holder of Convertible Bonds and Promissory Notes may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The derivative financial instruments are initial measured at fair value with changes in fair value recognised in profit or loss. For details of the movement and key inputs used for calculation of derivative financial instruments, please refer to Notes 5, 28 and 29.

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

Pledged bank deposits represent deposits pledged to banks to secure bills payable granted to the Group. The pledged bank deposits will be released upon the settlement of relevant bills payable (Note 26) and bank borrowings (Note 27).

Included in the cash and bank balances as at 31 December 2016, amount of approximately RMB373,348,000 (2015: RMB259,576,000) are subject to the foreign exchange control restrictions imposed by the government of the PRC.

Bank balances carry interest at market rates which range from 0.30% to 0.35% per annum for the year ended 31 December 2016 (2015: 0.35% to 0.38% per annum).

26. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Trade payable	78,420	74,850
Bills payable	25,700	23,850
Accruals	25,436	12,698
Other payables	8,849	2,242
	138,405	113,640

26. TRADE, BILLS, OTHER PAYABLES AND ACCRUALS (continued)

An aged analysis of the trade payables, based on invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
0 – 30 days	42,822	42,358
31 – 60 days	35,598	32,492
	78,420	74,850

The average credit period on purchases of certain goods is 60 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

As at 31 December 2016, the bills payable of approximately RMB25,700,000 (2015: RMB23,850,000) was pledged by the bank deposits (Note 25).

27. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Secured	91,110	123,970
Carrying amount repayable:		
Within one year	91,110	21,270
More than one year, but not exceeding two years	–	102,700
	91,110	123,970
Less: Amounts shown under current liabilities	(91,110)	(21,270)
Amount shown under non-current liabilities	–	102,700

All the bank borrowings were denominated in RMB. As at 31 December 2016 and 2015, the bank borrowings were secured by certain property, plant and equipment and pledged bank deposits held by the Group as set out in Notes 16 and 25 respectively.

27. BANK BORROWINGS (continued)

The ranges of effective interest rates (which are equal to the contracted interest rates) on bank borrowings are as follows:

	2016	2015
Fixed rate	4.6% to 6.9%	5.0% to 7.8%

28. PROMISSORY NOTES

The promissory notes issued have been split as to the derivative financial assets component (term extension derivative component and redemption option derivative component embedded in promissory notes), derivative financial liabilities component (term extension derivative component embedded in promissory notes) and the financial liability component (promissory notes liabilities). The following tables summarise the movements of derivative financial assets and financial liability components during year ended 31 December 2016 and 2015.

Derivative financial assets/(liabilities) – Term extension derivative component:

	Promissory Note 1 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Issue of promissory notes	2,857	–	2,857
Change in fair value	2,411	–	2,411
Exchange realignment	275	–	275
At 31 December 2015 and 1 January 2016	5,543	–	5,543
Issue of promissory notes	–	986	986
Change in fair value	(5,757)	(334)	(6,091)
Exchange realignment	115	53	168
At 31 December 2016	**(99)**	**705**	**606**

28. PROMISSORY NOTES (continued)

Derivative financial assets – Redemption option derivative component:

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
At 31 December 2015 and 1 January 2016	–	–	–	–
Issue of promissory note	–	79	–	79
Early redemption of promissory notes	–	(125)	–	(125)
Change in fair value	137	225	–	362
Exchange realignment	5	10	–	15
At 31 December 2016	**142**	**189**	**–**	**331**

Financial liabilities – Financial liability component:

	2016 RMB'000	2015 RMB'000
Current portion	**178,804**	67,673
Non-current portion	**60,342**	–
	239,146	67,673

	Promissory Note 1 RMB'000	Promissory Note 2 RMB'000	Promissory Note 3 RMB'000	Total RMB'000
At 1 January 2015	–	–	–	–
Issue of promissory note	64,534	–	–	64,534
Imputed interest charged	2,206	–	–	2,206
Coupon interest payable	(2,918)	–	–	(2,918)
Exchange realignment	3,851	–	–	3,851
At 31 December 2015 and 1 January 2016	67,673	–	–	67,673
Issue of promissory note	–	159,859	100,015	259,874
Imputed interest charged	5,108	5,085	5,770	15,963
Coupon interest payable	(5,794)	(4,403)	(5,404)	(15,601)
Early redemption of promissory notes	–	(106,168)	–	(106,168)
Exchange realignment	4,630	5,969	6,806	17,405
At 31 December 2016	**71,617**	**60,342**	**107,187**	**239,146**

28. PROMISSORY NOTES (continued)

Promissory Note 1

On 19 June 2015, the Company issued a redeemable 7.5% promissory note with the principal amount of HK$80,000,000 and interest payable half yearly (the "Promissory Note 1").

The Promissory Note 1 has a term of one year and the holder shall extend the Promissory Note 1 on the same terms and conditions of the Promissory Note 1 for a further period of one year (the "Extended Term of the Promissory Note 1") provided that the Group's earnings before interest, taxes, depreciation and amortisation ("EBITDA") for the financial year before the end of the term is not less than RMB52,000,000 and the consolidated net asset value of the Group is not less than RMB220,000,000, provided that the noteholder of Promissory Note 1 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Company may, prior to the maturity date of the Promissory Note 1 from and including the date falling 12 months from the date of issue redeem the outstanding principal amount of the Promissory Note 1, with all amounts of accrued interests, handling fee and all other outstanding amount payable by the Company to the holder of the Promissory Note 1, and without penalty.

The Promissory Note 1 has the benefit of the security constituted by the share charges created by Rich Kirin Holdings Limited and Big Wealth Limited; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company; and the guarantee of Novel Blaze Limited, the ultimate holding company of the Company.

The Promissory Note 1 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 1 at the date of issue was estimated to be approximately RMB64,534,000 based on the effective interest rate of 6.3% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

On 19 June 2016, the maturity date of Promissory Note 1 extended to 19 June 2017. As a result, the effective interest rate of Promissory Note 1 changed to 8.5%.

Promissory Note 2

On 28 April 2016, the Company issued a redeemable 9% promissory note with the principal amount of HK$200,000,000 and interest payable yearly (the "Promissory Note 2").

The Promissory Note 2 has a term of three years. The Company may, at any time prior to the maturity date of the Promissory Note 2, redeem the outstanding principal amount of the Promissory Note 2, with all amounts of accrued interests and all other outstanding amount payable by the Company to the holder of the Promissory Note 2.

28. PROMISSORY NOTES (continued)

Promissory Note 2 (continued)

The Promissory Note 2 contains two components: redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 2 at the date of issue was estimated to be approximately RMB159,859,000 based on the effective interest rate of 10.9% per annum. The redemption option derivative component is measured at fair value with changes in fair value recognised in profit or loss.

During the year ended 31 December 2016, the Promissory Note 2 with principal amount of HK$130,000,000 was early redeemed. The excess of the fair value of the consideration to settle the Promissory Note 2 over (i) the carrying value of the financial liability component; and (ii) fair value of early redemption component of the redeemed portion of the Promissory Note 2 of approximately RMB5,112,000 was recognised by the Group as a loss on early redemption of promissory note and debited to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016.

Promissory Note 3

On 20 May 2016, the Company issued a redeemable 8.5% promissory note with the principal amount of HK$120,000,000 and interest payable yearly (the "Promissory Note 3").

The Promissory Note 3 has a term of one year and the holder shall extend the Promissory Note 3 on the same terms and conditions of the Promissory Note 3 for a further period of one year (the "Extended Term of the Promissory Note 3") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000, provided that the noteholder of Promissory Note 3 may only make up to two extensions and the aggregate extended term for the above extensions shall not exceed two years.

The Promissory Note 3 contains three components: term extension derivative component, redemption option derivative component and financial liability component. The fair value of the financial liability component of the Promissory Note 3 at the date of issue was estimated to be approximately RMB100,015,000 based on the effective interest rate of 9.1% per annum. The term extension derivative component and redemption option derivative component are measured at fair value with changes in fair value recognised in profit or loss.

29. CONVERTIBLE BONDS

The convertible bonds issued have been split as to the derivative financial asset component (redemption option derivative component embedded in convertible bonds); the derivative financial liability component (term extension derivative component embedded in convertible bonds); the financial liability component (convertible bonds) and equity component (convertible bonds reserve). The following tables summarise the movements of derivative financial assets; derivative financial liabilities; financial liabilities and equity component during the year ended 31 December 2016 and 2015.

Derivative financial assets – Redemption option derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Issue of convertible bonds	155	–	155
Derecognition upon modification of convertible bonds	(121)	–	(121)
Recognition upon modification of convertible bonds	149	–	149
Change in fair value	54	–	54
Exchange realignment	16	–	16
At 31 December 2015 and 1 January 2016	253	–	253
Issue of convertible bonds	–	7,504	7,504
Conversion of convertible bonds	–	(7,934)	(7,934)
Change in fair value	7,251	4,203	11,454
Exchange realignment	353	279	632
At 31 December 2016	**7,857**	**4,052**	**11,909**

Derivative financial liabilities – Term extension derivative component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Issue of convertible bonds	(663)	–	(663)
Derecognition upon modification of convertible bonds	(911)	–	(911)
Recognition upon modification of convertible bonds	1,755	–	1,755
Change in fair value	3,089	–	3,089
Exchange realignment	164	–	164
At 31 December 2015 and 1 January 2016	3,434	–	3,434
Issue of convertible bonds	–	2,174	2,174
Conversion of convertible bonds	–	(3,414)	(3,414)
Change in fair value	(1,281)	2,976	1,695
Exchange realignment	177	112	289
At 31 December 2016	**2,330**	**1,848**	**4,178**

29. CONVERTIBLE BONDS (continued)

Financial liabilities – Financial liability component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Issue of convertible bonds	15,320	–	15,320
Derecognition upon modification of convertible bonds	(15,503)	–	(15,503)
Recognition upon modification of convertible bonds	17,602	–	17,602
Imputed interest charged	1,565	–	1,565
Coupon interest payable	(727)	–	(727)
Exchange realignment	1,089	–	1,089
At 31 December 2015 and 1 January 2016	19,346	–	19,346
Issue of convertible bonds	–	28,039	28,039
Conversion of convertible bonds	–	(19,112)	(19,112)
Imputed interest charged	3,258	1,183	4,441
Coupon interest payable	(1,307)	(785)	(2,092)
Exchange realignment	1,422	824	2,246
At 31 December 2016	**22,719**	**10,149**	**32,868**

Equity component:

	Convertible Bond 1 RMB'000	Convertible Bond 2 RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Issue of convertible bonds	915	–	915
Recognition of deferred taxation directly from equity	(164)	–	(164)
Derecognition upon modification of convertible bonds	(751)	–	(751)
Recognition upon modification of convertible bonds	4,067	–	4,067
At 31 December 2015 and 1 January 2016	4,067	–	4,067
Issue of convertible bonds	–	2,149	2,149
Recognition of deferred taxation directly from equity	–	(180)	(180)
Conversion of convertible bonds	–	(1,330)	(1,330)
At 31 December 2016	**4,067**	**639**	**4,706**

29. CONVERTIBLE BONDS (continued)

Convertible bond 1

On 10 September 2015, the Group entered into supplementary deeds, agreed to amend the provisions of the Company's early redemption right under the Convertible Bond 1 ("Modification"). The amended term is unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bonds shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 1 to be redeemed, (ii) return of 17.5% per annum on the outstanding principal amount of the Convertible Bond 1 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 1 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The effective interest rate after 10 September 2015 is 14.31%.

In valuing the derivative components the Black-Scholes model with Trinomial Tree method was used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follow:

	At 19 June 2015	At 10 September 2015
Time to maturity	1 to 3 years	0.77 to 2.77 years
	(depends on extension condition)	
Share price	HK$0.87	HK$0.84
Share price volatility	62.22% to 70.47%	64.28% to 85.09%
Earning volatility	64.93% to 70.47%	69.04% to 85.09%
Earning growth rate	44.97%	47.58%
Conversion price	HK$0.85	HK$0.85
Discount rate	12.78% to 13.46%	14.69% to 15.37%

Details of Convertible Bond 1 on initial recognition or Modification to be approximately as follows:

	At 19 June 2015 RMB'000	At 10 September 2015 RMB'000
Liability component	15,320	17,602
Equity component	915	4,067
Redemption option derivative component	(155)	(149)
Term extension derivative component	(663)	1,755
	15,417	23,275

On 19 June 2016, the maturity date of Convertible Bond 1 extended to 19 June 2017. As a result, the effective interest rate of Convertible Bond 1 changed to 23.4%.

29. CONVERTIBLE BONDS (continued)

Convertible Bond 2

On 20 May 2016, the Company issued redeemable 7.5% convertible bonds with aggregate principal amount of HK$30,000,000 with handling fee charging at 1% per annum and interest payable half yearly ("Convertible Bond 2"). The Convertible Bond 2 entitle the holder to convert to ordinary shares of the Company at a conversion price of HK$0.75 per share and will be converted into 40,000,000 shares assuming full conversion.

Conversion may occur at any time during the term of the Convertible Bond 2.

The Convertible Bond 2 have a term of one year and the holder shall extend the Convertible Bond 2 on the same terms and conditions of the Convertible Bond 2 for a further period of one year (the "Extended Term of the Convertible Bond 2") provided that the Group's EBITDA for the financial year before the end of the term is not less than RMB68,196,000 and the consolidated net asset value of the Group is not less than RMB296,892,000 ("Condition 2"), provided that the holder of Convertible Bond 2 may only make up to two extensions under Condition 2 and the aggregate extended term for the above extensions shall not exceed two years.

Subject to the Promissory Note 3 (Note 28) having been redeemed in full, the Company has the right to redeem all (but not part of) the outstanding principal amount of the Convertible Bond 2 at any time during the period between the first day of the sixth month following the date of issue of the Convertible Bond 2 and the last day immediately preceding the maturity date of the Convertible Bond 2.

Unless previously redeemed, converted, purchased and cancelled, the redemption price payable by the Company for early redemption of the Convertible Bond 2 shall be the amount equivalent to the sum of (i) the outstanding principal amount of the Convertible Bond 2 to be redeemed, (ii) return of 15% per annum on the outstanding principal amount of the Convertible Bond 2 from the issue date to the date of full payment of the redemption price by the Company with such return calculated on the basis of the actual number of days elapsed in a year of 365 days (exclusive of interest) for the redemption of the portion of the Convertible Bond 2 which has not been converted into Shares, (iii) all accrued and unpaid interest, (iv) all accrued and unpaid handling fee, and (v) all other outstanding amounts payable by the Company to the bondholder.

The Convertible Bond 2 have the benefit of the security constituted by the share charges created by the Company, Cable King Limited, Wealthy Top (China) Limited and Novel Blaze Limited, the ultimate holding company of the Company; the guarantee of Mr. Sun Shao Hua, a Director and a controlling shareholder of the Company, and Ms. Zheng Xue Xia, a controlling shareholder of the Company and the spouse of Mr. Sun Shao Hua.

29. CONVERTIBLE BONDS (continued)

Convertible Bond 2 (continued)

The effective interest rate at issue of Convertible Bond 2 is 11.6%.

In valuing the derivative components the Black-Scholes model with Trinomial Tree method was used.

The key inputs used for calculation of the fair value of the derivative financial assets component were as follow:

	At 20 May 2016
Time to maturity	3 years
Share price	HK$0.71
Share price volatility	55.45%
Price-to-EBITDA ratio	5.67
Conversion price	HK$0.75
Discount rate	10.03%

On 12 August 2016, Convertible Bond 2 was partly converted into 26,666,666 ordinary shares of the Company.

30. CONTINGENT CONSIDERATION PAYABLE

The contingent consideration payable is denominated in HK$.

The contingent consideration payable was arising from the acquisition of Cable King Group at 27 April 2016, for the details of the determination of the contingent consideration, please refer to Note 34.

At 27 April 2016, based on the directors' best estimation with reference to the valuation report provided by a professional valuer, payable of approximately RMB94,766,000 (equivalent to approximately HK$113,046,000) was recognised at fair value.

As at 31 December 2016, the Company refer to actual profit of the Cable King Group and valuation report provided by an independent external valuer, estimate the fair value of contingent consideration payable to be RMB155,568,000 (equivalents to approximately HK$173,706,000). As a result, a fair value loss of approximately RMB51,963,000 (equivalents to approximately HK$60,660,000) was recognised in the consolidated statement of profit or loss.

31. DEFERRED REVENUE

	2016 **RMB'000**	2015 RMB'000
Service fee received but related service not rendered	**57,617**	–

32. DEFERRED TAXATION

The deferred taxation recognised in the consolidated statement of financial position and the movements during the years are as follows:

	RMB'000
Deferred tax liabilities arising from:	
At 31 December 2014 and 1 January 2015	–
Recognised directly in equity	164
Derecognition upon modification of convertible bonds	(129)
Recognised upon modification of convertible bonds	153
Credit to profit or loss (Note 13)	(138)
Exchange realignment	5
At 31 December 2015 and 1 January 2016	55
Recognised directly in equity	180
Arising on acquisition of subsidiaries (Note 34)	6,565
Credit to profit or loss (Note 13)	(3,824)
Exchange realignment	4
At 31 December 2016	**2,980**

At the end of the reporting period, the Group has no unused tax losses (2015: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams, as it is not probable that taxable profits will be available against which the cumulative tax losses can be utilised.

33. CAPITAL AND RESERVES

(a) Share capital

	Number of shares '000	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each	8,000,000	80,000

	Number of shares '000	Share capital HK$'000	Share capital RMB'000
Issued and fully paid:			
At 1 January 2015, 31 December 2015 and 1 January 2016	800,000	8,000	6,287
Issue of share			
– Related to business combination (Note (i))	314,286	3,143	2,635
– Conversion of convertible bonds (Note (ii))	26,667	267	228
At 31 December 2016	**1,140,953**	**11,410**	**9,150**

Notes:

(i) On 27 April 2016, 314,285,714 ordinary shares were issued in relation to acquisition of Cable King Group (Note 34).

(ii) On 12 August 2016, 26,666,666 ordinary shares were issued in relation to conversion of Convertible Bond 2, (Note 29).

33. CAPITAL AND RESERVES (continued)

(a) Share capital (continued)

The aggregate net proceeds received by the Company from the global offering amounted to approximately HK$73.1 million (equivalent to approximately RMB57.7 million) after deducting underwriting commissions and all related expenses. The Company was intended to use the net proceeds for (i) setting up new production lines; (ii) enhancing the research and development capabilities; (iii) construction of new production block; and (iv) general working capital.

On 12 August 2016, the holder of Convertible Bond 2 exercised the conversion right and the entire convertible bond was converted into 26,666,666 ordinary shares of the Company of HK$0.01 each. The conversion shares rank pari passu in all respects with the shares of the Company.

(b) Reserves

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statements of changes in equity.

(i) Share option reserve

The share option reserve relates to share options granted to Directors and employees under the Company's share option scheme. Items included in share option reserve will not be reclassified subsequently to profit or loss.

(ii) Convertible bonds reserve

The amount represented the equity component of the convertible bonds issued.

(iii) Statutory reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiary established in the PRC are required to provide for PRC statutory reserve, by way of transfer 10% of the profit after taxation to the statutory reserve until such reserve reaches 50% of the registered capital of the PRC Subsidiary. Subject to the certain restrictions set out in the Company Law of the PRC, part of the statutory reserve may converted to increase paid-up capital/issued capital of the PRC subsidiary, provided that the remaining balance after capitalisation is not less than 25% of the registered capital. The statutory reserve of the PRC subsidiary was RMB36,869,000 as at 31 December 2016 (2015: RMB29,142,000).

(iv) Other reserve

Other reserve represented the difference between the Group's shares of nominal value of the paid-up capital of the subsidiary acquired over the Group's cost of acquisition of the subsidiary under common control upon reorganisation.

(v) Exchange reserve

Exchange reserve comprise all foreign exchange difference arising from the translation of the financial statements of operations that have functional currency other than RMB which are dealt with in accordance with the accounting policies as set out in Note 3.

33. CAPITAL AND RESERVES (continued)

(c) Statement of changes in equity of the Company

	Share premium RMB'000	Share option reserve RMB'000	Convertible bonds reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2014 and 1 January 2015	64,588	4,274	–	533	(18,586)	50,809
Loss for the year	–	–	–	–	(19,591)	(19,591)
Other comprehensive income for the year	–	–	–	3,339	–	3,339
Total comprehensive loss for the year	–	–	–	3,339	(19,591)	(16,252)
Equity-settled share option expenses	–	15,931	–	–	–	15,931
Issue of convertible bonds	–	–	915	–	–	915
Recognition of deferred taxation directly from equity	–	–	(164)	–	–	(164)
Derecognition upon modification of convertible bonds	–	–	(751)	–	751	–
Recognition upon modification of convertible bonds	–	–	4,067	–	–	4,067
At 31 December 2015 and 1 January 2016	64,588	20,205	4,067	3,872	(37,426)	55,306
Loss for the year	–	–	–	–	(83,210)	(83,210)
Other comprehensive income for the year	–	–	–	16,504	–	16,504
Total comprehensive loss for the year	–	–	–	16,504	(83,210)	(66,706)
Equity-settled share option expenses	–	2,389	–	–	–	2,389
Issue of shares in relation to acquisition of subsidiaries	221,309	–	–	–	–	221,309
Issue of convertible bonds	–	–	2,183	–	–	2,183
Transaction costs attributable to issue of convertible bonds	–	–	(34)	–	–	(34)
Deferred tax of convertible bonds	–	–	(180)	–	–	(180)
Issue of ordinary shares upon conversion of convertible bonds	15,686	–	(1,330)	–	–	14,356
At 31 December 2016	**301,583**	**22,594**	**4,706**	**20,376**	**(120,636)**	**228,623**

33. CAPITAL AND RESERVES (continued)

(d) Share option scheme

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group. Eligible participants of the Scheme included any full-time or part-time employee of the Company or any member of the Group, including any executive directors, non-executive directors and independent non-executive directors, advisors, consultants of the Group. The Scheme was valid and effective on 13 January 2014 and, unless otherwise altered or terminated, will remain in full force for a period of ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme (the "Scheme Mandate Limit"). Subject to the approval of shareholders in general meeting, the Company may refresh the Scheme Mandate Limit to the extent that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the Scheme Mandate Limit as refreshed must not exceed 10% of the shares in issue as at the date of such shareholders' approval.

In addition, the maximum number of shares in respect of which share options may be granted to any eligible participant within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The subscription price for the shares subject to options will be a price determined by the Board and notified to each participant and shall be 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 of the options, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the participant. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by our Board to each participant provided that the period within which the option must be exercised shall not be more than 10 years from the date of the grant of option. The exercise of an option may be subject to the administration of our Board whose decision as to all matters arising from or in relation to the Scheme as its interpretation or effect shall (save as otherwise provided herein) be final and binding on all parties to the Scheme.

33. CAPITAL AND RESERVES (continued)

(d) Share option scheme (continued)

The following table discloses movements of the Company's share options:

Name or category of participant	Option type	Number of share options: At 1 January 2015	Granted during the year	At 31 December 2015 and 1 January 2016	Granted during the year	At 31 December 2016	Date of grant of share options (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK$	Price of Company's share at grant date of share options HK$
Directors										
Mr. Chen Wei Wei	2014 tranche 1	3,450,000	–	3,450,000	–	3,450,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Chen Wei Wei	2014 tranche 2	3,450,000	–	3,450,000	–	3,450,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 1	3,750,000	–	3,750,000	–	3,750,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Mr. Sun Shao Hua	2014 tranche 2	3,750,000	–	3,750,000	–	3,750,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 1	3,300,000	–	3,300,000	–	3,300,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Ms. Hu Li Yu	2014 tranche 2	3,300,000	–	3,300,000	–	3,300,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 1	9,500,000	–	9,500,000	–	9,500,000	18/12/14	18/12/14 to 17/12/17	0.65	0.65
Employees of the Group	2014 tranche 2	9,500,000	–	9,500,000	–	9,500,000	18/12/14	18/12/15 to 17/12/17	0.65	0.65
Employees of the Group	2015 tranche 1	–	20,000,000	20,000,000	–	20,000,000	24/04/15	24/04/15 to 23/04/18	1.09	1.09
Employees of the Group	2015 tranche 2	–	20,000,000	20,000,000	–	20,000,000	24/04/15	24/04/16 to 23/04/18	1.09	1.09
		40,000,000	40,000,000	80,000,000	–	80,000,000				
Weighted average exercise price (HK$)		0.65	1.09	0.87	–	0.87				

Options that were granted during the year ended 31 December 2014 have a term of three years commencing from 18 December 2014 and shall vest and become exercisable in two equal tranches on 18 December 2014 and 18 December 2015 respectively.

During the year ended 31 December 2015, options were granted and have a term of three years commencing from 24 April 2015 and shall vest and become exercisable in two equal tranches on 24 April 2015 and 24 April 2016 respectively.

At 31 December 2016, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 80,000,000 (2015: 80,000,000), representing approximately 7% (2015: 10%) of the shares of the Company in issue at that date.

No share options granted during the year (2015: HK$17,632,000, HK$0.44 each), of which the Group recognised a share option expense of approximately RMB2,389,000 (2015: RMB15,931,000) during the year ended 31 December 2016.

33. CAPITAL AND RESERVES (continued)

(d) Share option scheme (continued)

The fair value of the share options is determined using the Black-Scholes Option Pricing Model. The Black-Scholes Model calculates the price variation over time of financial instruments such as stocks that can be used to determine the price of share options. The model assumes that the price of heavily traded assets follow a geometric Brownian motion with constant drift and volatility. When applied to price a share option, the model incorporates the constant price variation of the stock, the time value of money, the option's strike price and the time to the option's expiry.

The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Inputs into the model

Option type	2014 tranche 1	2014 tranche 2	2015 tranche 1	2015 tranche 2
Grant date share price	HK$0.65	HK$0.65	HK$1.09	HK$1.09
Exercise price	HK$0.65	HK$0.65	HK$1.09	HK$1.09
Expected volatility	59.39%	59.39%	60.35%	60.35%
Time to maturity	3 years	3 years	3 years	3 years
Dividend yield	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.78%	0.78%	0.78%	0.78%

34. BUSINESS COMBINATION

On 17 November 2015, the Company entered into the Share Purchase Agreement with Mr. Peng Dongmiao (the "Vendor"), pursuant to which the Company conditionally agreed to acquire 100% equity interest of Cable King Group. Cable King Group is principally engaged in the development, distribution and operation of online gaming products in the PRC. The acquisition was completed on 27 April 2016.

Certain conditions were required in completing the acquisition of Cable King Group as detailed in the announcements made by the Company dated 26 February 2016, 29 February 2016 and 27 April 2016.

34. BUSINESS COMBINATION (continued)

The fair value of the net identifiable assets acquired and the goodwill arising are as follows:

	RMB'000
Property, plant and equipment (Note 16)	168
Intangible assets (Note 19)	47,146
Non-current prepayment	2,147
Accounts receivable	48,041
Prepayments and other receivables	29,033
Cash and cash equivalents	98
Accounts payable	(166)
Accruals and other payables	(18,731)
Tax liabilities	(157)
Deferred revenue	(35,615)
Deferred taxation (Note 32)	(6,565)
Total identifiable net assets acquired	65,399
Goodwill on acquisition	429,857
	495,256

The consideration of the acquisition is satisfied by the followings:

	Fair value RMB'000
Consideration satisfied by:	
Cash	16,766
Consideration shares	223,944
Promissory note	159,780
Contingent consideration payable (Note)	94,766
	495,256
Net cash outflow arising on the acquisition:	
Consideration paid in cash	(16,766)
Less: Cash and cash equivalent balances acquired	98
	(16,668)

34. BUSINESS COMBINATION (continued)

Note: The net aggregate consideration will be further adjusted based on the audited consolidated profit after tax of Cable King for the financial year ended 31 December 2016 (the "Actual Profit"). If the Actual Profit is more than HK$49,000,000, the Company shall pay the Vendor an additional consideration (the "Additional Consideration"), subject to a maximum amount of HK$180,000,000. The Additional Consideration will be satisfied by the Company in one or the mixture of the ways of (i) cash; (ii) allotment and issuance of additional consideration shares of the Company (the "Additional Consideration Shares") at the same issue price as the Consideration Shares; or (iii) the issuance of an additional promissory note by the Company as further agreed by the Company and the Vendor.

The Additional Consideration is recognised as the contingent consideration payable, measured at fair value with changes in fair value recognised in profit or loss and determined based on the valuation carried out. The fair value was determined by an independent professional valuer not connected with the Group based on probability weighted payoff of the scenarios, discounted at the sum of weighted average cost of capital and a premium.

The promissory note in the principal amount of HK$200,000,000 was issued as part of the consideration, which bear interest at 9% per annum with a maturity of 3 years. More detailed information of the promissory note can be found in Note 28.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Included in the consideration of the acquisition there was an allotment and issue of 314,285,714 new ordinary shares of the Company. The fair value of the ordinary shares issued was determined by referring to the published price of HK$0.85 per share at 27 April 2016.

Acquisition related costs amounting to approximately RMB2,502,000 have been excluded from the cost of acquisition and have been recognised directly as an expense during the year and included in the "administrative expenses" line item in the consolidated statement of profit or loss.

Included in the profit for the year, Cable King generated revenue of approximately RMB220,909,000 to the Group, and the amount of profit for the year of approximately RMB53,213,000 to the Group.

Had the acquisition of Cable King been effected at the beginning of the year, the total amount of revenue of the Group for the year ended 31 December 2016 would have been RMB940,083,000, and the amount of the profit for the year would have been RMB21,199,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the year, nor is it intended to be a projection of future results.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Interest in subsidiaries		549,133	16,614
Property, plant and equipment		14	23
		549,147	16,637
Current assets			
Prepayments, deposits and other receivables		128	120
Amount due from subsidiaries		73,198	60,095
Derivative financial instruments		12,946	5,796
Pledged bank deposits		44,760	68,677
Cash and bank balances		441	5,621
		131,473	140,309
Current liabilities			
Accruals and other payables		10,964	4,845
Derivative financial instrument		4,277	3,434
Promissory notes		178,804	67,673
Convertible bonds		32,868	19,346
Contingent consideration payable		155,568	–
		382,481	95,298
Net current (liabilities)/assets		(251,008)	45,011
Total assets less current liabilities		298,139	61,648
Non-current liabilities			
Deferred taxation		24	55
Promissory note		60,342	–
		60,366	55
Net assets		237,773	61,593
Capital and reserves attributable to owners of the Company			
Share capital		9,150	6,287
Reserves	33(c)	228,623	55,306
Total equity		237,773	61,593

Approved by the Board on 30 March 2017 and signed on its behalf by:

Mr. Chen Wei Wei
Chairman

Mr. Sun Shao Hua
Executive Director

36. PARTICULARS OF THE SUBSIDIARIES

Particulars of the subsidiaries at 31 December 2016 are as follow:

Name of subsidiaries	Place and date of incorporation/ establishment/ operation	Nominal value of issued share capital/registered capital /paid-up capital	Percentage of attributable equity interest and voting power held by the Company		Principal activities
			Direct	Indirect	
Rich Kirin Holdings Limited ("Rich Kirin")	The BVI, 13 June 2013	US$1	100	–	Investment holding
Big Wealth Limited ("Big Wealth")	The BVI, 18 November 2005	US$100	–	100	Investment holding
HongSheng (Jiangxi) Color Printing Packaging Co., Ltd. ("HongSheng")	The PRC, wholly-owned foreign enterprise 29 November 2005	Registered capital HK$100,000,000 Paid-up capital HK$100,000,000	–	100	Sales of packaging materials
Jiangxi Hongyu New Materials Environmental Friendly Paper Co., Ltd. ("Hongyu") (Note (i))	The PRC, 6 May 2015	Registered capital RMB60,000,000 Paid-up capital Nil	–	100	Manufacture and sale of environmental friendly stone paper and stone-paper based products
Cable King Limited ("Cable King")	The BVI, 15 July 2015	US$1	100	–	Investment holding
Wealthy Top (China) Limited ("Wealthy Top")	Hong Kong, 27 May 2015	HK$1	–	100	Investment holding
Chunxin (Xiamen) Investment Management Company Limited ("Chunxin")	The PRC, wholly-owned foreign enterprise 12 February 2016	Registered capital RMB1,000,000 Paid-up capital RMB1,000,000	–	100	Provision of consultancy services

Note:

(i) The registered capital of Hongyu is RMB60,000,000. As at 31 December 2016, the Group had not injected any capital to Hongyu and the remaining of RMB60,000,000 will be injected prior to 5 May 2024.

37. STRUCTURED ARRANGEMENTS

As at 31 December 2016, the Group has an operating entity controlled through contractual arrangements in Cable King Group.

Particulars and main business of the operating entity

冰河(廈門)信息技術有限公司 (Behill Science Technology Co., Ltd) ("Behill") is a limited liability company established under the laws of the PRC and is wholly owned by Mr. Huang Jianqiang (黃建強) ("Mr. Huang"). Behill is controlled by the Group through Chunxin by way of certain structured contracts in relation to controlling the Behill by Chunxin (the "Structured Contracts"). Behill is principally engaged in development, distribution and operation of gaming products.

Major terms of the structured contracts

Power of attorney

Mr. Huang executed an irrevocable power of attorney which enables Chunxin to exercise all the powers of the shareholders of Behill.

Exclusive call option agreement

Mr. Huang irrevocably and without any additional conditions grant an exclusive option to Chunxin under which Chunxin shall have the right to require Mr. Huang to transfer his equity interest in Behill on demand to Chunxin or its designated entity or individual.

Exclusive Technological Support and Management Consulting Service Agreement

Chunxin shall serve as the exclusive consultant and service provider to Behill, to provide a variety of consulting technical support services to Behill for its business. Behill shall pay to Chunxin a service fee that is equal to its 100% profits before income tax (net of operating and other tax expenses) on a monthly basis.

Business Cooperation Agreement

Behill and Mr. Huang shall appoint persons to be designated by Chunxin to be the chairman (when applicable), directors/executive directors, general manager, chief financial controller and other senior management of Behill. Behill shall be operated in accordance with the instruction of Chunxin and Mr. Huang has undertaken not to act in any manner that may affect the assets, business, personnel, obligations, rights or the operations of Behill, unless with the prior written consent of the Chunxin or its appointee. In addition, Chunxin shall have the right to obtain and review the business data, financial information and other information relevant to the operations and business of Behill.

Revenue and assets subject to the contractual arrangements

The revenue and total assets subject to the contractual arrangements, in aggregate, are set out below:

	2016 **RMB'000**	2015 RMB'000
Revenue	**220,908**	–
Net profit	**53,213**	–

	2016 **RMB'000**	2015 RMB'000
Total assets	**156,990**	–

37. STRUCTURED ARRANGEMENTS (continued)

Major terms of the structured contracts (continued)

Equity pledge agreement

Mr. Huang agreed to pledge all equity interests in Behill to Chunxin as a security for Mr. Huang's and Behill's performance of their obligation under the foresaid agreements.

Significance of business of Behill to the Group

The Structured Contracts enabled the Group to enter into the development, distribution and operation of gaming products business and enhance the profitability of the Group.

38. PLEDGED ASSETS

Assets with the following carrying amounts have been pledged to secure bank borrowings (Note 27) and bills payable (Note 26) of the Group.

	2016 RMB'000	2015 RMB'000
Machinery (Note 16)	41,538	58,366
Computer and office equipment (Note 16)	–	1
Buildings (Note 16)	50,462	53,536
Pledged bank deposits (Note 25)	59,460	80,602
	151,460	192,505

39. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions, which in the opinion of the Directors of the Company, were carried out on normal commercial terms and in the ordinary course of the Group.

Compensation of key management personnel of the Group, including director's remuneration as detailed in Note 11 above.

	2016 RMB'000	2015 RMB'000
Fees	299	281
Other emoluments:		
Salaries, allowances and benefits in kind	5,814	7,245
Retirement benefit schemes contributions	82	60
Total	6,195	7,586

39. MATERIAL RELATED PARTY TRANSACTIONS (continued)

Name of related parties	Relationship	Nature of transactions	2016 RMB'000	2015 RMB'000
鴻聖信息科技(廈門)有限責任公司	Company controlled by a Director	Office premises rental expenses	**629**	–
Mr. Peng Dongmiao (Note)	Substantial shareholder	Interest expenses on Promissory Note 2	**5,085**	–

Note: As a result of business combination stated in Note 34, the Company issue Consideration shares and Promissory Note 2 to Mr. Peng Dongmiao for the consideration of acquisition of the entire equity interest of Cable King Limited. Mr. Peng Dongmiao become the substantial shareholder of the Company. During the year ended 31 December 2016, interest expenses of approximately RMB5,085,000 (equivalent to approximately HK$5,903,000) was incurred in relation to Promissory Note 2 held by Mr. Peng Dongmiao.

40. COMMITMENTS

Operating lease commitment

The Group as lessee

At the end of the reporting period, the Group had commitments for the future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**832**	220
In the second to fifth years inclusive	**2,403**	201
Over five years	**–**	–
	3,235	421

Capital commitment

	2016 RMB'000	2015 RMB'000
Authorised and contracted for capital contributions payable to subsidiaries	**60,000**	68,375
Capital expenditure on acquiring property, plant and equipment	**1,852**	–
	61,852	68,375

40. COMMITMENTS (continued)

Other commitment

For the year ended 31 December 2011, the Group had entered into an agreement with development entity for five years with an annual charge of RMB600,000, for (i) improving the efficiency of production process and the productivity of machinery equipment; (ii) saving cost and resources; (iii) the development of new products, with a special focus on the production of stone-paper packaging products and (iv) the enhancement of ability in production technologies and techniques in satisfying a wide range of customer requirements in a cost efficient and profitable manner.

41. NON-CASH TRANSACTIONS

As set out in note 34 to the consolidated financial statements, the Company issued 314,285,714 ordinary shares of at the prices of HK$0.70 as part of the considerations for the acquisition of Cable King Group.

42. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2017.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is prepared on the basis set out in the notes below:

Results

	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**868,593**	615,372	491,523	383,049	280,553
Cost of sales	**(602,711)**	(466,863)	(374,245)	(293,443)	(221,291)
Gross profit	**265,882**	148,509	117,278	89,606	59,262
Other revenue	**2,428**	1,886	1,165	921	837
Other income	**3,595**	7,902	10,767	7,945	3,903
Selling and distribution expenses	**(96,752)**	(29,126)	(20,280)	(15,792)	(11,704)
Administrative expenses	**(43,418)**	(27,377)	(26,874)	(21,764)	(11,830)
Amortisation of intangible assets	**(27,438)**	–	–	–	–
Change in fair value of derivative financial instruments	**4,030**	(624)	–	–	–
Change in fair value of contingent consideration payable	**(51,963)**	–	–	–	–
Loss on modification of convertible bonds	**–**	(7,021)	–	–	–
Loss on early redemption of promissory notes	**(5,185)**	–	–	–	–
Equity-settled share option expenses	**(2,389)**	(15,931)	(4,274)	–	–
Finance costs	**(26,269)**	(8,374)	(1,781)	(1,056)	(1,080)
Profit before tax	**22,521**	69,844	76,001	59,860	39,388
Income tax expenses	**(14,600)**	(15,079)	(13,879)	(15,523)	(5,166)
Profit for the year	**7,921**	54,765	62,122	44,337	34,222

Assets and Liabilities

	As at 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Total assets	**1,305,796**	683,037	382,784	251,770	154,027
Total liabilities	**(725,896)**	(332,015)	(106,615)	(113,092)	(76,014)
	579,900	351,022	276,169	138,678	78,013

Notes:

(i) The financial information for each of the five years ended 31 December 2016 have been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock exchange, had been in existence throughout the years concerned. The results for the year ended 31 December 2012, and the assets and liabilities as at 31 December 2012 have been extracted from the Prospectus dated 27 December 2013.

(ii) The summary above does not form part of the audited financial statements.