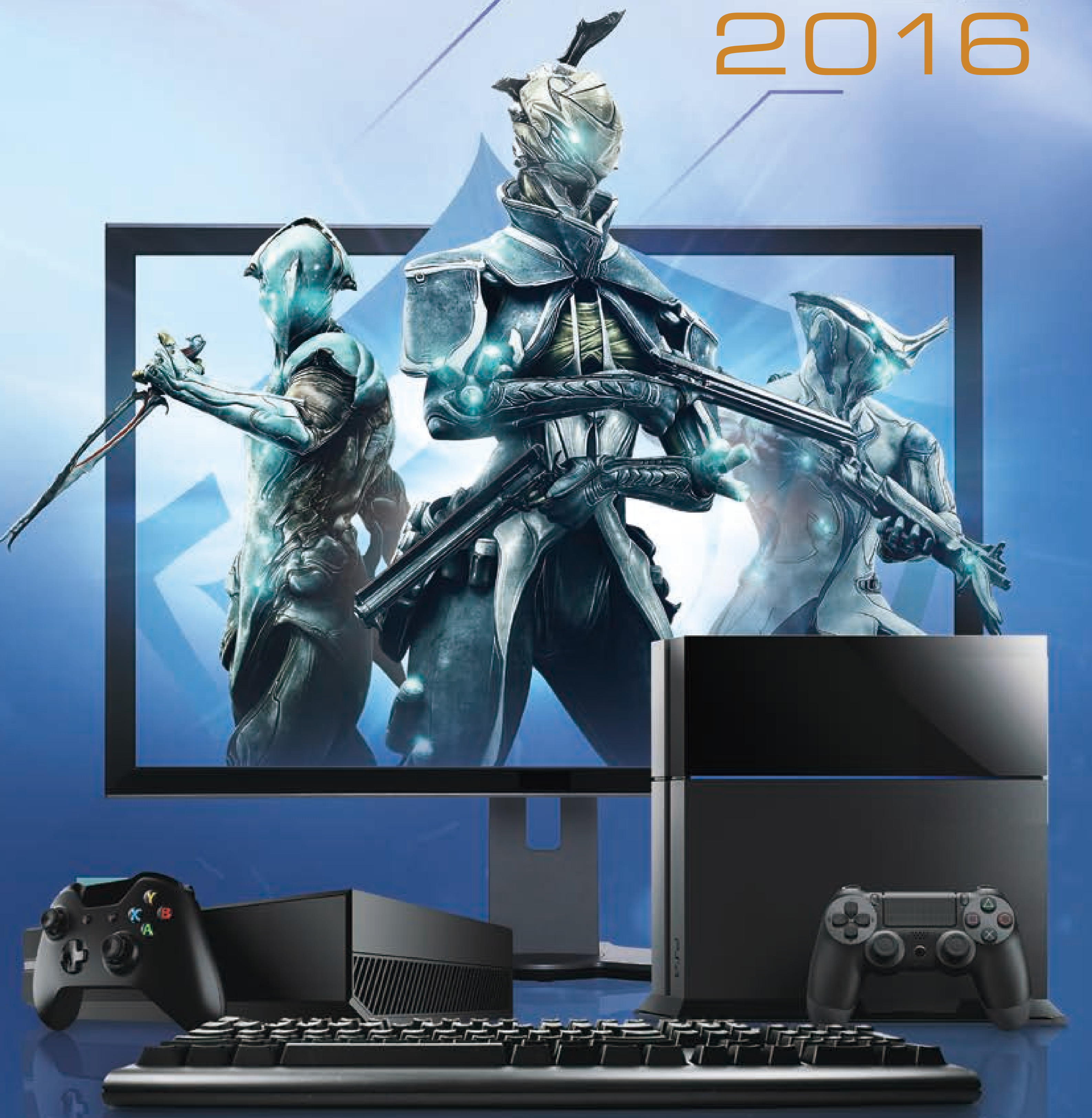
LEYOU TECHNOLOGIES HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1089

ANNUAL REPORT 2016



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Corporate Information

DIRECTORS

Executive Directors
Mr. Lin Qinglin *(Chairman)*
Mr. Law Kin Fat *(Vice Chairman)*
Mr. Wu Shiming
Mr. Gu Zhenghao
Mr. Hsiao Shih-Jin

Non-Executive Director
Mr. Eric Todd

Independent Non-Executive Directors
Mr. Hu Chung Ming
Mr. Yang Chia Hung
Mr. Chan Chi Yuen

AUDIT COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Chan Chi Yuen
Mr. Yang Chia Hung

REMUNERATION COMMITTEE

Mr. Hu Chung Ming *(Committee Chairman)*
Mr. Chan Chi Yuen
Mr. Lin Qinglin

NOMINATION COMMITTEE

Mr. Lin Qinglin *(Committee Chairman)*
Mr. Hu Chung Ming
Mr. Chan Chi Yuen

COMPANY SECRETARY

Mr. Yau Yan Ming Raymond

LEGAL ADVISORS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

STOCK CODE

1089

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Agricultural Bank of China Limited
Agricultural Development Bank of China
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.
The Hong Kong and Shanghai Banking Corporation

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681,
Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1020-22, 10th Floor, Two Pacific Place,
88 Queensway, Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No.688, Denggao East Road, Xinluo District, Longyan,
Fujian, PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.leyoutech.com.hk

CHAIRMAN'S STATEMENT

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of the Leyou Technologies Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present our annual report for the year ended 31 December 2016.

If the year 2015 marked the beginning of a new chapter for the Group, 2016 was another year which the Group continued to evolve with our exciting growth strategy. In 20 May 2016, we have further acquired additional 39% stake of our very successful Canadian video gaming studio, Digital Extremes Ltd. ("Digital Extremes") and have increased our effective control to 97% (the remaining 3% owned by Perfect Online Holdings Limited). Our flagship video game, Warframe, has also become one of the top free-to-play PC and console video games globally last year. After months of negotiation, we have signed Sell and Purchase Agreements back in the third quarter last year to acquire Splash Damage Limited, Fireteam Limited, and Warchest Limited from their UK owner for a consideration not exceeding US$150 million. On 30 September 2016, we also managed to dispose the poultry business in China, which has been struggled since 2013, despite numerous failed efforts in restructuring, rationalisation, and cost cutting. Upon the completion of our UK acquisitions, the Group sets to emerge into 2017 as an international video gaming franchise. As an on-going strategy, we intend to grow our portfolio of successful and profitable gaming companies through acquisitions in the more advanced markets. We are also confident that synergies would be generated among our studios, and we expect new game pipeline, new projects and initiatives such as partnership arrangements would underpin the Group's long term growth prospects.

RESULTS REVIEW

The Group's attributable revenue (on the continuing computer and video gaming operation) amounted to RMB856 million for the fiscal year 2016, representing a headline growth rate of 165% compared to RMB323 million in 2015. However, given the disposal of the poultry business on 30 September 2016 and we have increased from a 58% stake of Digital Extremes to a 97% effective control on 20 May 2016, we would caution any simple year-over-year comparison. (For a more accurate understanding of the operational performance of Digital Extremes, please refer to the Video Gaming section of this result review). Given the increased attributable earnings contribution from Digital Extremes last year and the marginal turnaround of the poultry business in China, the Group has reported a RMB48.6 million net profit attributed to the shareholders for the fiscal year 2016. That was a significant improvement from a net loss of RMB81.6 million in 2015. As a measure of operational performance, EBITDA of the continuing operation was RMB279 million in 2016, up 130% from a year ago due to the strong organic earning growth and increased equity stake of Digital Extremes. We are pleased to see that our strategic change in corporate direction since 2015 has started to deliver concrete financial results to our shareholders last year.

VIDEO GAMING

Our 97% owned video gaming studio, Digital Extremes, had delivered yet another year of outstanding performance in 2016. Revenue for the fiscal year ended 31 December 2016 was up 122.7% to CAD147.7 million with a 174% increase in gross profit to CAD95.8 million. Net income for the year also reached a new all-time record high of CAD58.7 million, representing an annual growth rate of 168.5% compared to CAD21.9 million in 2015. Profitability have improved further for the third consecutive years; 2016 gross profit and net margin were 64.9% (2015: 52.8%) and 39.8% (2015: 33.0%), respectively. This was the backdrop behind our decision to acquire the further 39% of stake of Digital Extremes back in May 2016 and we now have 97% of the effective control.

Our awards-winning online video game, Warframe has been the key growth driver for Digital Extremes' strong growth and record profitability last year. The game has continued to rack up a large number of players across the world and our peak PC user base has achieved a new record level last November as we launched the biggest update ever globally on 11 November 2016. This hugely successful free-to-play third-person shooter game has consistently ranked the top 10 most-played PC games on Steam most of last year. Strong revenue growth of Warframe was resulted from a stable ARPPU (Average Revenue Per Paying User) as well as a steady increase in active user base over time. In addition to growing users' support, our excellent monetarisation skill is also another key for its strong financial performance. At the end of 2016, total registered players across all platforms have increased further to 28.2 million, an increase of 40.8% from a year ago. Average Monthly Active Users rose to 2.17 million in 2016, up 30.3% from 1.66 million a year ago. Average Monthly Concurrent Users also climbed to 61,869 in 2016 from 48,393 in 2015, representing a 27.9% year-over-year increase. Underpinned by excellent users' experience, on-going new contents introduction, and effective marketing and promotional activities, we are confident that 2017 will remain a very successful year for this blockbuster video game.

In terms of distribution agents, Steam (PC-based revenue) contributed to more than 30% revenue for 2016, whereas Microsoft ("Xbox") and Sony ("PS") platform represented approximately 23% and 19% revenues, respectively over the same period. We see little fundamental changes over vendors mix last year and such ratio shall remain fairly stable in the foreseeable future. In term of geographical revenue breakdown, North American remained the No.1 market with a 55% revenue (53% in 2015) contribution for 2016. Europe was the second largest market for Warframe and it contributed about 25% of last year revenue, same as the year before. Asia Pacific (ex-China) was 8.2% of revenue and its growth momentum seemed to have picked up towards second half of 2016. However, China remained the only disappointment despite of the global success of Warframe and its revenue contribution has dropped from more than 11% in 2015 (which Warframe was first officially launched in the mainland) to below 6% for 2016. Since Digital Extremes could not publish our video game directly into China given the restrictions on foreign publishers, our strength in self-development and self-publishing was not reflected in the China business. Warframe China, also known as "Galactic Armor", is an alternative build of Warframe published by ChangYou (PC version since September 2015) and Perfect World (console version since November 2015) developed by Digital Extremes, targeted specifically for Chinese players. We will review our engagement with Chinese publishing partners this year and work on rationalising and optimising the China business.

POULTRY (DISCONTINUED OPERATIONS)

In light of the impacts on avian influenza and competition from fast-growing chicken, the poultry industry in China has suffered widespread loss since 2013. Obviously, we have implemented numerous measures to control the damages of epidemic diseases, costs as well as improve productivity, and expand sales channels. Although the overall poultry revenue has declined 27% year-over-year in 2016, the down-scaling of unprofitable business and on-going cost cutting measures has helped to turnaround the business slightly. As a result, the poultry operations reported a small net profit of RMB16.5 million for 2016, against a net loss of RMB56.0 million in 2015. Nevertheless, the inherited risk and cyclicality of the poultry business remains and the low profitability (net margin: 1.8%) does not argue well on keeping the poultry operations as a long-term strategic asset, especially when it is compared to our very profitable video gaming business. Therefore, we have disposed the entire poultry operations on 30 September 2016 and the proceeds will be deployed into growing our international video gaming portfolio.

BUSINESS STRATEGY & OUTLOOK

According to a market study by Technavio, the global massive multiplayers online ("MMO") gaming market revenue is expected to grow at a CAGR of 12% between 2016-2020, fueled by the increasing popularity of free-to-play online games. This finding was in line with a Newzoo report that the global PC/MMO free-to-play ("F2P") market has achieved a 12% CAGR between 2013-2016, at the expense of the pay-to-play ("P2P") segment that delivered little growth over the same period. While F2P has always been the dominant monetisation model in China, it has only gained international popularity in recent years. We believe the transition to the F2P model for PC and console games in North America and Europe would continue for the years to come. While its growth remains strong, the global MMO gaming market has undergone some significantly changes in terms of revenue, player preferences, addressable players in recent years. On the console front, both the Xbox and PS have started to offer more games digitally; and mobile online video games have become increasingly popular in the more matured markets. The arrival of virtual reality is likely to extend the product life cycle of the seemingly matured console and PC segments for the years to come. It would offer new opportunities as well as challenges in developing video games in mobile devices. With these industry dynamics in mind, we will focus on building a diversified portfolio of profitable video gaming studios with strong IPs and franchises, innovative business model, and world class production capacity in more developed markets that have proved their success in developing high-end console, PC, as well as mobile video games.

For 2017, we continue to see robust earnings growth from Digital Extremes on the back of a steadily rising user base, an improved performance of the less penetrated Asian/China markets for Warframe, and the future contributions from new games in the pipeline. Specifically, we are looking to launch a newly-developed and self-published online video game, Keystone, possibly by mid-2017. We also expect further revenue upsides from Digital Extremes' new partnership with the US studio, Human Head in the joint-development of a new online game towards the end of this year. Our teams at Digital Extremes are also mindful of the market potential of what a mobile and tablet version of Warframe and Keystone could bring, as well as the emergence of virtual reality video games in the coming quarters.

Meanwhile, the successful completion of our UK acquisitions (Splash Damage, Fireteam, and Warchest) in the near future would immediately enhance our investment portfolio and contribute to the Group overall revenue and earnings. Given their different but yet complementary skill set, we are confident that synergies would be generated among our video gaming studios. We also expect new projects and initiatives such as partnership arrangements with other studios would underpin our longer term growth and achieve better earnings diversity. Over the medium term, we continue to look for potential acquisitions of video gaming studios that would fit our stringent investment criteria and could potentially offer synergies to our existing portfolio.

ACKNOWLEDGEMENT

I would like to take this opportunity to express my heartfelt gratitude to our shareholders, members of the Board, senior management and all our staffs for their dedication and contribution during the year. On the behalf of the Board, I would like to thank our clients, suppliers, and business partners for their relentless support and trust. Going forward, we shall strive to explore further opportunities and overcome challenges, as we remain steadfast and committed to attaining better result for the Group.

Lin Qinglin
Chairman

Hong Kong, 30 March 2017

Financial Highlights

	For the year ended 31 December		
	2016	2015	Change
	(RMB'000)	(RMB'000)	%
		(Restated)	
Results highlights			
From continuing operation			
Revenue	**855,883**	322,654	165.2
Gross Profit	**490,449**	170,206	188.2
Gross Profit Margin (%)	**57.3%**	52.8%	8.5
From continuing and discontinued operations			
Profit/(loss) for the year attributable to the owners of the Company	**48,576**	(81,626)	159.5
Basic and diluted earnings/(loss) per share (RMB cents)	**1.69**	(3.04)	155.6
Dividend per share (RMB)	**Nil**	Nil	N/A

	As at 31 December 2016 (RMB'000)	As at 31 December 2015 (RMB'000)	Change %
Balance sheet highlights			
Total assets	**1,522,782**	2,040,158	(25.4)
Total borrowings**	**295,143**	278,467	6.0
Net assets	**1,036,658**	1,393,301	(25.6)
Net assets per share (RMB)	**0.36**	0.52	(30.8)
Current ratio	**3.86**	1.84	109.8
Gearing ratio*	**19.4%**	13.6%	42.6%

* Gearing ratio = Interest-bearing borrowings/Total assets

** Total borrowings = Debenture + bank borrowings + bond

MANAGEMENT DISCUSSION AND ANALYSIS

Management Discussion and Analysis

OVERVIEW

As introduced by our chairman in the Chairman Statement, the management are committed to take the Company to a brighter future.

BUSINESS OVERVIEW

Acquisition of the remaining 39% of the issued share capital of Digital Extremes

30 December 2015, Multi Dynamic Games served the Call Notice on the 39% Vendors to exercise the 39% Call Option pursuant to the New Shareholders' Agreement to acquire the 39% Sale Shares from the 39% Vendors, receipt of which was acknowledged on 1 January 2016.

On 28 April 2016, Multi Dynamic Games, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement, among other parties, with the 39% Vendors, pursuant to which each of the 39% Vendors shall sell, as the legal and beneficial owner, and Multi Dynamic Games shall purchase the 39% Sale Shares at the 39% Consideration on the 39% Acquisition Closing Date.

All the conditions precedent set out in the Sale and Purchase Agreement have been fulfilled and the 39% Acquisition Closing took place on 20 May 2016. Following the 39% Acquisition Closing, both the common shares and Class B Special shares in the issued share capital of Digital Extremes are owned as to 97.0% by Multi Dynamic Games and 3.0% by Perfect Online Holdings Limited.

For details please refer to the Company's announcements dated 28 April 2016 and 20 May 2016.

Very substantial disposal and connected transaction relating to disposal of the entire equity interest in the target company of the poultry segment

On 10 August 2016, the Company and the Purchaser entered into the Sale and Purchase Agreement, pursuant to which, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of the Sumpo International Holdings Limited (the "Target Company") at a consideration of RMB214,000,000 (equivalent to approximately HK$258,000,000), subject to the terms and conditions of the Sale and Purchase Agreement. Upon Completion, the Target Company and its subsidiaries will cease to be subsidiaries of the Company which represents the end of the poultry business for the Company.

For details please refer to the Company's announcements and circular dated 10 August 2016, 14 September 2016 and 30 September 2016.

The acquisition of United Kingdom video games companies

The Company entered into the Main SPA pursuant to which Radius Maxima conditionally agreed to acquire the Splash Damage Shares, the Fireteam Shares and the Warchest Shares from Paul Wedgwood.

For details please refer to the Company's announcements and circular dated 30 May 2016, 3 July 2016, 29 July 2016, 29 August 2016, 26 September 2016, 11 January 2017, 22 February 2017 and 31 March 2017.

Cancellation agreement disposal of the entire equity interests of 惠州智彬科技有限公司 (Huizhou Zhibin Technology Ltd*)

On 9 November 2016, Leyou World (Shenzhen) Science and Technology Co. Ltd. ("Leyou World"), a wholly-owned subsidiary of the Company, entered into a cancellation agreement with the transferors whereby the parties have mutually agreed to cancel the equity transfer agreement and the ancillary agreements relating to the acquisition of the entire equity interest of Huizhou Zhibin Technology Ltd. and to release and discharge each other from their respective obligations under the agreements.

For details please refer to the Company's announcements dated 9 November 2016.

* for identification purpose only

FINANCIAL REVIEW

Revenue

Continuing Operation – Computer and Video gaming

The following table sets out a breakdown of our revenue by product categories and their relative percentages of our total revenue during the reporting period:

	For the year ended 31 December		
	2016	2015	% change in revenue
	RMB'000	RMB'000	
Computer and Gaming	**855,883**	322,654	165.2

Our total revenue increased by approximately 165.2% from approximately RMB322,654,000 for the year ended 31 December 2015 to approximately RMB855,883,000 for the year ended 31 December 2016, primarily due full year result of the revenue contributed from acquired gaming business as compared to the 5 months result after acquisition.

Discontinued Operations – Poultry

Revenue for the poultry business was approximately RMB940,485,000 for the year ended 31 December 2016 as compared to approximately RMB1,283,142,000 for the year ended 31 December 2015. In the current year, the Group only accounted for nine months result of the poultry segment up to the date of completion of disposal on 30 September 2016.

Gross Profit

	For the year ended 31 December		
	2016	2015	% change in gross profit
	RMB'000	RMB'000	
Computer and video games	**490,449**	170,206	188.2

Gross Profit Margin

	For the year ended 31 December	
	2016	2015
	%	%
Computer and video games	**57.3**	52.8

Gross profit increased by approximately 188.2% from approximately RMB170,206,000 for the year ended 31 December 2015 to approximately RMB490,449,000 for the year ended 31 December 2016. Our overall gross profit margin increased from approximately 52.8% for the year ended 31 December 2015 to approximately 57.3% for the year ended 31 December 2016. The increase in gross profit margin due to the increase sales of the computer and gaming business.

Other Revenue and Gains

Other revenue and gains decreased by approximately 69.7%, from approximately RMB24,086,000 for the year ended 31 December 2015 to approximately RMB7,288,000 for the year ended 31 December 2016, primarily as a result of the compensation upon termination from a potential acquisition and the exchange gain last year.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 108.9%, from approximately RMB15,782,000 for the year ended 31 December 2015 to approximately RMB32,972,000 for the year ended 31 December 2016, primarily as a result of the sharing of full year in related costs in the gaming segment.

Administrative Expenses

Administrative expenses increased by approximately 176.1%, from approximately RMB47,395,000 for the year ended 31 December 2015 to approximately RMB130,879,000 for the year ended 31 December 2016, primarily as a result of increase in staff costs and the legal and professional fees for acquisitions and disposal of subsidiaries during the year ended 31 December 2016.

Other Operating Expenses

Other operating expenses decreased by approximately 61.6%, from approximately RMB3,788,000 for the year ended 31 December 2015 to approximately RMB1,454,000 for the year ended 31 December 2016, mainly due to the decrease in the donation and fee and commission expense from trading of financial assets during the reporting period.

Finance Costs

Finance costs increased by approximately 5,466.7%, from approximately RMB477,000 for the year ended 31 December 2015 to approximately RMB26,553,000 for the year ended 31 December 2016, primarily as a result of interest for the fixed coupon redeemable bond issued during the year.

Taxation

Taxation increased by approximately 67.1%, from a tax expense of approximately RMB38,234,000 for the year ended 31 December 2015 to approximately RMB63,894,000 for the year ended 31 December 2016, primarily as a result of the increase in the income from gaming segment.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Resources

During the year, the Group financed its operations with internally generated cash flow and proceeds from the issuance of the fixed coupon redeemable bond for its capital requirements.

As at 31 December 2016, cash and cash equivalents amounted to approximately RMB91,044,000 (2015: cash and cash equivalents and pledged bank deposits approximately RMB144,973,000), of which were denominated in Renminbi, Hong Kong Dollars, United States Dollars ("US Dollars") and Canadian Dollars.

Borrowings and Pledged Assets

As at 31 December 2016, there was no outstanding interest-bearing bank borrowings (2015: approximately RMB275,000,000). The decrease in bank borrowings was mainly due to the disposal of poultry segment. The Group's bond was divided into both short-term and long-term which denominated in US Dollars with effective interest rate at 13.7% per annum (2015: nil).

Gearing Ratio

As at 31 December 2016, the gearing ratio of the Group was approximately 19.4% (2015: approximately 13.6%). This was calculated by dividing interest-bearing borrowings with the total assets of the Group. The increase in the gearing ratio was mainly due to the decrease in total assets during the year.

PROSPECT

As introduced in the Business Strategy & Outlook in Chairman's Statement, the Company with devote it effort to achieve goals set by the Board and the management.

OTHER INFORMATION

1. Human Resources

As at 31 December 2016, the Group had 294 employees. Employee costs, including directors' emoluments, amounted to approximately RMB120.0 million for year ended 31 December 2016 (2015: RMB65.2 million). All of the group companies are equal opportunity employers, with the selection and promotion of individuals based on their suitability for the position offered. The Group contributes to a defined contribution mandatory provident fund retirement benefits scheme for its employees in Hong Kong, and provides its employees in the People's Republic of China (the "PRC") with welfare schemes as required by the applicable laws and regulations in the PRC.

The Company also adopted a share option scheme on 11 January 2011. As at 31 December 2016, the Company had already granted an aggregate of 129,600,000 share options to certain eligible participants with the exercise price of HK$1.2 per share.

2. Foreign Exchange Risk

The Group's main operations are in the PRC and Canada. Most of the assets, income, payments and cash balances are denominated in Renminbi, Canadian Dollars and US Dollars. The Group has not entered into any foreign exchange hedging arrangement. The directors of the Company consider that exchange rate fluctuation has no significant impact on the Group's performance.

3. Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the year, the Company had acquired additional 39% of the entire issued share capital of Digital Extremes, which allows the Group to control up to 97% of Digital Extremes. The transaction was completed on 20 May 2016.

The Company also ceased its poultry business by disposal of the entire interest of the shares of its subsidiary, Sumpo International Holdings Limited. This transaction was completed 30 September 2016.

The Company also terminated and cancelled the transaction relating to the acquisition of Huizhou Zhibin Technology Ltd. on 9 November 2016.

The acquisition by Radius Maxima, an indirectly hold subsidiary of the Company, of the entire issued share capital of Splash Damage Limited ("Splash Damage"), Firesteam Limited ("Firesteam") and Warchest Limited ("Warchest") from Paul Wedgwood was approved on 9 March 2017 by the shareholders of the Company. Splash Damage, Fireteam and Warchest since then become wholly-owned subsidiaries of Raduis Maxima.

4. Contractual and Capital Commitments

As at 31 December 2016, the Group had operating lease commitments of approximately RMB90.4 million (2015: approximately RMB64.1 million).

As at 31 December 2016, the Group had no capital commitments (2015: RMB25.5 million).

Corporate Governance Report

INTRODUCTION

The Company believes that good corporate governance will not only improve management accountability and investor confidence, but will also lay a good foundation for the long-term development of the Company. Therefore the Company will strive to develop and implement effective corporate governance practices and procedures. The Company has adopted a corporate governance code based on the revised Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the guidelines for corporate governance of the Company, and has taken steps to comply with the Code wherever appropriate.

CORPORATE GOVERNANCE PRACTICES

Throughout the year, the Company has complied with the Code provisions with the following deviations:

Under the Code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. There is no appointment letter issued by the Company to Mr. Yang Chia Hung and the term of appointment of Mr. Hu Chung Ming expired in year 2016 and thereafter they are not appointed for a specific term, but they are subject to retirement by rotation at least once in every three years in accordance with the articles of association of the Company (the "Articles").

Under the Code provision D.1.4, directors should clearly understand the delegation arrangements in place. The Company should have formal letters of appointment for directors setting out the key terms and conditions relative to their appointment. The Company did not have formal letters of appointment for Mr. Wu Shiming, an executive Director of the Company, and Mr. Hu Chung Ming and Mr. Yang Chia Hung, independent non-executive Directors. However, they are subject to retirement by rotation at least once in every three years in accordance with the Articles. In addition, the directors of the Company (the "Directors") have followed the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as the Directors. Besides, the Directors actively comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Save as aforesaid, in the opinion of the Directors, the Company has met all the code provisions set out in the Code during the year ended 31 December 2016.

DIRECTORS

The Board

The Board, led by the Chairman of the Board, steers the Company's business direction. The Board is responsible for formulating the Company's long-term strategies, setting business development goals, assessing results of management policies, monitoring the management's performance and ensuring effective implementation of risk management measures on a regular basis.

The Directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans. Regular Board meetings are attended by a majority of the directors in person or through other electronic means of communication.

During the year, the Board held 21 meetings and the Company held its annual general meeting on 15 July 2016 and 1 extraordinary general meeting on 30 September 2016. The attendance records of each Director at the Board meetings and general meetings in 2016 are set out below:

Directors	**Board Meetings**	**General Meetings**
Executive Directors		
Mr. Lin Qinglin *(Chairman)*	1/21	0/2
Mr. Law Kin Fat *(Vice Chairman)*	17/21	2/2
Mr. Wu Shiming	2/21	0/2
Mr. He Zhigang *(resigned on 4 May 2016)*	6/9	N/A
Mr. Wong Ka Fai Paul *(resigned on 14 March 2017)*	19/21	2/2
Mr. Gu Zhenghao *(appointed on 14 March 2017)*	N/A	N/A
Mr. Hsiao Shih-Jin *(appointed on 7 March 2016)*	8/19	0/2
Non-Executive Director		
Mr. Eric Todd	15/21	2/2
Independent Non-executive Directors		
Mr. Hu Chung Ming	16/21	2/2
Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*	5/9	N/A
Mr. Chan Chi Yuen	9/21	1/2
Mr. Yang Chia Hung *(appointed on 7 March 2016)*	9/19	0/2

Notice of regular Board meetings are served to all Directors at least 14 days before the meeting while reasonable notice is generally given for other Board meetings.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors in a timely manner, and at least 3 days before the intended date of each Board or committee meeting, except agreed otherwise among the members, to ensure that they had sufficient time to review the Board papers, to adequately prepare for the meeting, to keep abreast of the latest developments and financial position of the Company, to enable the Directors to include any matter in the agenda and to make informed decisions.

When needed and upon making request to the Board, Directors may obtain independent professional advice at the Company's expense in carrying out their duties.

Minutes of all Board meetings and Board committee meetings are kept by the company secretary of the Company. All of the above minutes record in sufficient detail the matters considered and decisions reached by the relevant members, including any concern raised by Directors or dissenting views expressed. Any Director may inspect the minutes at any reasonable time on reasonable notice.

Draft minutes are normally circulated to Directors or members of the relevant Board committees for comment within a reasonable time after each meeting.

According to the current Board practice, any material transaction, which involves a conflict of interests between a substantial shareholder or a Director and the Company, will be considered and dealt with by the Board at a duly convened Board meeting with the presence of the independent non-executive Directors. Directors are abstained 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.

The Company has maintained appropriate insurance cover in respect of legal action against its Directors and officers arising out of corporate activities.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of the Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual. The two positions are held separately by two individuals to ensure their respective independence, accountability and responsibility. Mr. Lin Qinglin is the Chairman of the Board and Mr. Wang Haitong is the Chief Executive Officer of the Company. The Company considered that the division of responsibilities between the Chairman and Chief Executive Officer is clearly established.

As the Chairman of the Board, Mr. Lin Qinglin is responsible for (among other things), the following:

- ensuring, with the assistance of the management of the Company, that the Directors receive adequate, accurate, clear, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings;

- providing leadership for the Board;

- ensuring that the Board works effectively, performs its responsibilities, discusses all key and appropriate issues in a timely manner, with good corporate governance practices and procedures;

- drawing up, approving and considering whether to include the matters proposed by other Directors into the agenda for each Board meeting. This responsibility have been delegated to the company secretary of the Company and a designated Director;

- encouraging all Directors to fully and actively contribute to the Board's affairs and express different views and discuss issues in sufficient depth before reaching any consensus in Board's decisions;

- facilitating the effective contribution of Directors, in particular, non-executive Directors, and promote the constructive relations between executive and non-executive Directors; and

- ensuring the effective communication between the Board and shareholders as a whole through different channels, including (i) printed or electronic copies (as elected by the shareholders) of corporate communications required by the Listing Rules; (ii) the annual general meeting which provides a forum for the shareholders to raise comments and exchange views with the Board; (iii) the Company's website which allows the shareholders to acquire the updated and key information on the Group and to provide feedback for the Company; and (iv) handling of the enquiries from the shareholders and investors generally.

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

Executive Directors:
Mr. Lin Qinglin *(Chairman)*
Mr. Law Kin Fat *(Vice Chairman)*
Mr. He Zhigang *(resigned on 4 May 2016)*
Mr. Wong Ka Fai, Paul *(resigned on 14 March 2017)*
Mr. Gu Zhenghao *(appointed on 14 March 2017)*
Mr. Wu Shiming
Mr. Hsiao Shih-Jin *(appointed on 7 March 2016)*

Non-executive Director
Mr. Eric Todd

Independent non-executive Directors:
Mr. Hu Chung Ming
Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*
Mr. Chan Chi Yuen
Mr. Yang Chia Hung *(appointed on 7 March 2016)*

An updated list of the Directors by category identifying their role and function is at all times available on the websites of the Company and the Stock Exchange. The list specifies whether a Director is an independent non-executive Director and expresses the respective roles and functions of each Director.

The Company identifies the independent non-executive Directors in all corporate communications which disclose the names of Directors.

Details of the biographies of the Directors are given under the section "Directors and Senior Management Profile" of this annual report on pages 33 to 36.

None of the Directors is related to each other.

The independent non-executive Directors play an important role on the Board. They are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of the shareholders and the Group as a whole. Throughout the year of 2016, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one of them possessing appropriate professional qualifications on accounting or related financial management expertise. The number of independent non-executive Directors has represented at least one-third of the Board.

Appointments, re-election and removal

Pursuant to Rule 3.13 of the Listing Rules, the Company has received an annual confirmation from each independent non-executive Director confirming his independence. The Company has assessed the independence of the independent non-executive Directors and considers that for the year ended 31 December 2016, all of them to be independent based on the independence criteria in accordance with the requirements in the Listing Rules, their non-involvement in the daily operation and management of the Company, and the absence of any relationships which will interfere with the exercise of their independent judgments.

The Company confirms that year of service of all independent non-executive Directors is less than 9 years.

Under Article 84(1) of the Company's Articles of Association, at each annual general meeting, not less than one-third of the Directors for the time being shall retire from office by rotation and every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every 3 years while those retiring Directors shall be eligible for re-election. Any Director who has not been subject to retirement by rotation in the 3 years preceding the annual general meeting shall retire by rotation at such annual general meeting.

Nomination of Directors

On 28 March 2012, the Board has established a nomination committee (the "Nomination Committee") pursuant to the requirements of the Code, to provide a framework and set the standards for the appointment of high quality Directors who should have the capacity and ability to lead the Company towards achieving sustainable development. The Nomination Committee considers matters regarding the nomination and/or appointment or re-appointment of Directors.

Details of the Nomination Committee are set out in the sub-section headed "Nomination Committee" below.

Responsibilities of Directors

The company secretary works closely with the newly appointed Directors both immediately before and after his/her appointment to acquaint the newly appointed Directors with the duties and responsibilities as a Director and the business operation of the Company.

A package compiled and reviewed by the Company's legal advisors setting out such duties and responsibilities under the Listing Rules, Companies Ordinance and other related law and relevant regulatory requirements of Hong Kong is provided to each newly appointed Director. The Directors are updated with the latest developments in laws, rules and regulations relating to the duties and responsibilities of directors from time to time.

The Board views that the independent non-executive Directors are well-aware of their functions and have been actively performing their functions including but not limited to exercising their independent judgment at Board meetings, taking the lead where potential conflicts of interest arise, scrutinising the Company's performance and providing constructive and informed advice on the business strategy, policy, performance and management of the Company. They regularly review the financial information, monitor the operational performance of the Company and serve on the Audit Committee, Remuneration Committee and Nomination Committee as required.

The Directors will disclose to the Company at the time of their appointment, and in a timely manner for any change, the number and nature of offices held in public companies or organisations and other significant commitments. They will also inform the Company of the identity of other public companies or organisations they serve and the time involved in these public companies or organisations.

All Directors have devoted their time and attention to the affairs of the Company with their hands-on knowledge and expertise in the areas and operation in which he/she is charged with. The contribution made by the Directors to the affairs of the Company is measured in terms of time as well as quality of the attention and the ability of the Directors with reference to his/her necessary knowledge and expertise. The attendance of Board meetings, general meetings and Board committee meetings indicates the constant participation of all Directors, including executive and non-executive Directors, and ensures the better understanding of the views of the shareholders by Directors. The extent of participation and contribution should be viewed both quantitatively and qualitatively.

To fulfill their duties properly, where they consider it as necessary to obtain additional information other than that is provided by the management of the Company, the Directors made inquiries during the Board meetings and Board committee meetings. The queries raised by Directors have received a prompt and full response.

Induction and Continuous Professional Development

The Directors are continually updated with business and market changes, and legal and regulatory developments to facilitate the discharge of their responsibilities through various Board meetings, resolutions, memoranda, Board papers, and updates on corporate governance practices and director's responsibilities under the Listing Rules, applicable laws and other relevant statutory requirements. According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Code on continuous professional development during the year under review:

Directors	**Corporate Governance/ Updates on Laws, Rules and Regulation**	**Accounting/ Finance/ Management/ Other professional skills**	**Updates on business and market changes**
Executive Directors			
Mr. Lin Qinglin	✓	✓	✓
Mr. Law Kin Fat	✓	✓	✓
Mr. Wu Shiming	✓	✓	✓
Mr. He Zhigang *(resigned on 4 May 2016)*	✓	✓	✓
Mr. Wong Ka Fai Paul *(resigned on 14 March 2017)*	✓	✓	✓
Mr. Hsiao Shih-Jin	✓	✓	✓
Independent Non-executive Directors			
Mr. Hu Chung Ming	✓	✓	✓
Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*	✓	✓	✓
Mr. Chan Chi Yuen	✓	✓	✓
Mr. Yang Chia Hung *(appointed on 7 March 2016)*	✓	✓	✓

Securities Transactions Guidelines

The Board has adopted a code of conduct regarding directors' securities transaction on the same terms/on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiries have been made with all Directors and they have confirmed that throughout the year ended 31 December 2016, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The Directors' interests in shares of the Company as at 31 December 2016 are set out in the "Report of the Directors" of this annual report.

The Board has also established written guidelines on no less exacting terms than the Model Code for the relevant employee, including any employee or a director or employee of a subsidiary or holding company who, because of his office or employment, is likely to be in possession of inside information in relation to the Company or its securities, in respect of their dealings in the Company's securities.

DELEGATION BY THE BOARD

Management Functions

The Board delegates its powers and authorities from time to time to the Board committees in order to ensure the operational efficiency and specific issues are being handled by relevant expertise. All Board committees are provided with accurate and sufficient information in timely manner so as to enable the Board committees to make informed decisions for the benefit of the Company and sufficient resources to discharge their duties.

The Board has adopted a set of consolidated memorandum of duties setting out its delegation policy. The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.

For aspects of management and administration functions delegated to the management, the Board has given clear directions as to the management's power, particularly as to where management should report back and obtain prior Board approval.

The functions reserved to the Board and those delegated to management have been formalised and are reviewed periodically to ensure that they remain appropriate.

The types of decisions which are to be taken by the Board include those relating to:

- corporate and capital structure;
- corporate strategy;
- significant policies affecting the Company as a whole;
- business plan, budgets and public announcements;
- delegation to the Chairman, and delegation to and by Board committees;
- key financial matters;
- appointment, removal or reappointment of Board members, senior management and auditors;
- remuneration of Directors and senior management;
- communication with key stakeholders, including shareholders and regulatory bodies; and
- corporate governance duties.

The types of decisions that the Board has delegated to the management include:

- approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- approving the assessment and monitoring of the performance of all business units and ensuring that all necessary corrective actions have been taken;
- approving expenses up to a certain limit;
- approving the entering into of any connected transactions not requiring disclosure under the Listing Rules;
- approving the nomination and appointment of personnels other than the member of the Board, senior management and auditors;
- approving press release concerning matters decided by the Board;
- approving any matters related to routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and cessation of non-material part of the Group's business); and
- carrying out any other duties as the Board may delegate from time to time.

Board Committees

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") is governed by its terms of reference, which are closely aligned with the relevant Code Provisions requirements and are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently comprises one executive Director, namely Mr. Lin Qinglin (as chairman), and two independent non-executive Directors, namely Mr. Hu Chung Ming and Mr. Chan Chi Yuen.

The main duties of the Nomination Committee include the following:

- review and supervise the structure, size and composition of the Board;
- identify qualified individuals to become members of the Board;
- assess the independence of the independent non-executive Directors;
- make recommendations to the Board on the appointment, re-appointment and succession planning of Directors, and any proposed change to the Board to implement the Company's corporate strategy; and
- monitoring the annual checks and assessment on the members of the Board, including the suitability and the sufficiency of time commitment of Directors.

During the year, 2 Nomination Committee meetings were held. The attendance records of each member of the Nomination Committee at the said committee meetings are set out below:

Members of Nomination Committee	**Attendance/Number of Meeting(s) held during the tenure of membership**
Executive Director	
Mr. Lin Qinglin *(Committee Chairman)*	N/A
Independent Non-executive Directors	
Mr. Hu Chung Ming	2/2
Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*	1/2
Mr. Chan Chi Yuen *(appointed as a member on 4 May 2016)*	1/2

During the year, the Nomination Committee reviewed and/or approved the followings:

- the structure, size and composition of the Board;
- the independence of independent non-executive Directors;
- the re-election of Directors;
- the nomination of Directors; and
- the sufficiency of time commitment of Directors.

The Nomination Committee adopted a "Procedure and Criteria for Nomination of Directors" in 2011, the details of which are set out below:

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).
2. Prepare a description of the role and capabilities required for the particular vacancy
3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination as Directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

Criteria for Nomination of Directors

1. Common Criteria for All Directors

   (a) Character and integrity
   (b) The willingness to assume broad fiduciary responsibility
   (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
   (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organisation, industry experience and familiarity with the products and processes used by the Company
   (e) Significant business or public experience relevant and beneficial to the Board and the Company
   (f) Breadth of knowledge about issues affecting the Company
   (g) Ability to objectively analyse complex business problems and exercise sound business judgment
   (h) Ability and willingness to contribute special competencies to Board activities
   (i) Fit with the Company's culture

2. Criteria Applicable to Non-executive Directors and Independent Non-executive Directors

   (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and committee meetings
   (b) Accomplishments of the candidate in his/her field
   (c) Outstanding professional and personal reputation
   (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules for the nomination of independent non-executive Director

The Company provides the Nomination Committee with sufficient resources to perform its duties. The Nomination Committee may seek independent professional advice wherever necessary and at the Company's expense, in order to perform its responsibilities.

The Company has adopted a board diversity policy ("Board Diversity Policy") in August 2013 which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company recognises the benefits of board diversity and endeavours to ensure that the Board has the appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve board diversity through the consideration of a number of factors, including professional qualifications and experience, cultural and educational background, gender, age and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Board will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

The Company considers that the current composition of the Board is characterised by diversity, whether considered in terms of professional background and skills.

Remuneration Committee

Remuneration of Directors

The remuneration committee of the Company (the "Remuneration Committee") was established in December 2010 pursuant to Rule 3.25 of the Listing Rules. The Remuneration Committee consults the Chairman and/or Chief Executive Officer about the remuneration proposals for other executive Directors. It meets when required to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee is governed by its terms of reference, which were revised by the Board on 28 March 2012 pursuant to the Code. The terms of reference are made available on the websites of the Company and the Stock Exchange.

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Hu Chung Ming (as chairman), and Mr. Chan Chi Yuen and one executive Director, namely Mr. Lin Qinglin.

During the year, 3 Remuneration Committee meetings were held. The attendance records of each member of the Remuneration Committee at the said committee meetings are set out below:

Members of Remuneration Committee	**Attendance/Number of Meeting(s) held during the tenure of membership**
Executive Director	
Mr. Lin Qinglin	N/A
Independent Non-executive Directors	
Mr. Hu Chung Ming *(Committee Chairman)*	3/3
Mr. Chan Chi Yuen	3/3

The work performed by the Remuneration Committee during the year included the followings:

- consider the proposed remuneration of Mr. Hsiao Shin-jin as Executive Director, Mr. Yang Chia Hung as Independent Non-executive Director; and
- review of the Company's emolument policy and structure for all Directors and senior management of the Company; and
- review of salary adjustment and 2015 bonus proposal of the Group and recommend the same to the Board for consideration; and

The human resource department of the Company provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

Audit Committee

The audit committee of the Company (the "Audit Committee") is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system is in place for internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Audit Committee also reviews and monitors the scope and effectiveness of the work of external auditors.

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Hu Chung Ming, Mr. Chan Chi Yuen and Mr. Yang Chia Hung. Mr. Hu Chung Ming is the chairman of the Audit Committee, who has considerable experience in accounting and financial management. The Audit Committee meets at least two times a year to review the Company's interim and annual results.

The Audit Committee is governed by its terms of reference, which were further revised by the Board on 17 December 2015 pursuant to the Code. The terms of reference are made available on the websites of the Company and the Stock Exchange.

During the year, 5 Audit Committee meetings were held and the attendance of each member at the Audit Committee meetings is as follows:

Members of Audit Committee	**Attendance/Number of Meeting(s) held during the tenure of membership**
Mr. Hu Chung Ming *(Committee Chairman)*	5/5
Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*	1/1
Mr. Chan Chi Yuen	4/5
Mr. Yang Chia Hung *(appointed as a member on 7 March 2016)*	3/4

The work performed by the Audit Committee during the year included consideration of the following matters:

- the completeness and accuracy of the 2015 annual report and 2016 interim report;
- the Company's compliance with statutory and regulatory requirements; developments in accounting standards and the effect on the Company;
- the internal control report for year 2015;
- the connected transactions for year 2015;
- the scope of audit of risk management and internal control of the Group;
- finding and recommendations from the management on internal control;
- the terms of engagement of the external auditors;
- the nature and scope of work of the external auditors;
- the management letter prepared by the external auditors; and
- recommendations to the Board, for the approval by the shareholders, for the reappointment of HLB Hodgson Impey Cheng Limited as the external auditors.

The Audit Committee has been advised that it may seek independent professional advice at the expense of the Company wherever necessary. The Audit Committee has been also provided with sufficient resources to perform its duties.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting, HLB Hodgson Impey Cheng Limited be re-appointed as the Company's external auditors for the forthcoming year.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Group had net assets of approximately RMB1,036.7 million as at 31 December 2016, and the Group recorded a profit attributable to owners of the Company of approximately RMB48.6 million for the year ended 31 December 2016.

The Board aims to present a balanced, clear and understandable assessment in annual and interim reports, price sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The Directors have acknowledged their responsibilities for the preparation of the Group's consolidated financial statement for each financial period which gives a true and fair view of financial positions of the Group and of the Group's financial performance and cash flows for that period.

The statement by the external auditors of the Company regarding its reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report" on pages 57 and 62 of this annual report.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and hence decide that it is appropriate to prepare the consolidated financial statements set out on pages 63 to 157 on a going concern basis. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The basis on which the Company generates or preserves value over the longer term and the strategy for delivering its objectives are explained in the "Management Discussion and Analysis" set out on pages 9 to 15 in this annual report.

The management of the Company provides the Board with sufficient explanation and information, such as the Group's major business activities and key financial information, to enable the Board to make an informed assessment of the financial information and position of the Company put before the Board for approval.

The management of the Company also provides all Directors with monthly updates giving them a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Risk Management and Internal Controls

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has adopted a set of risk management and internal control policies and procedures to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting, and to ensure compliance with relevant legislation and regulations.

Certain executive Directors and senior management have been delegated with respective level of authorities and have specific responsibility for monitoring the performance of business operating units. Annual budgets of the Group and quarterly financial reports have been provided to the executive committee of the Board.

The Group's internal audit function is performed by an outsourced internal audit team, which reports directly to the Audit Committee of the Group. The report provided internal audit findings and any action to be taken by management as a result. These findings and recommendations for improvement will be communicated to the respective management for their responses and corrective actions.

Each year, the Audit Committee reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by internal audit team. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration.

The Company is committed to ensuring compliance with regulatory requirements under the Listing Rules, applicable laws and regulations in handling connected transactions. Accordingly, the Company has implemented various internal control mechanisms to capture and monitor connected transactions to ensure that connected transactions are conducted under normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by the independent shareholders in accordance with Listing Rules. The connected persons will be required to abstain from voting in general meetings. Details of the connected transactions of the Company during the year are set out in the Report of the Directors.

Auditors' Remuneration

For the year under review, the remuneration paid for services provided by the external auditors are as follows:

Audit services	RMB1,544,000
Non-audit services (which included taxation compliance and agreed upon procedures)	RMB515,000

COMPANY SECRETARY

Mr. Yau Yan Ming Raymond ("Mr. Yau") was appointed as company secretary of the Company on 24 July 2015. The biographical details of Mr. Yau are set out under the section headed "Directors and Senior Management Profile".

According to the requirements of Rule 3.29 of the Listing Rules, Mr. Yau has taken not less than 15 hours of relevant professional training during the financial year ended 31 December 2016.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company endeavours to uphold a high level of corporate transparency. Keeping shareholders, investors, analysts, bankers and other stakeholders informed of our corporate strategies and business operations has been one of the key objectives of our investor relations team.

The general meetings of the Company provide the best opportunity for communication between the Board and shareholders. The Company complied with the required notice periods for general meetings under the applicable laws, rules and regulations.

The Chairman of the Board and chairman of the Remuneration Committee, Nomination Committee and Audit Committee or, in their absence, other members of the respective committees are available to answer questions at the shareholders' meetings.

The external auditors of the Company, HLB Hodgson Impey Cheng Limited, also attended the Company's annual general meeting held on 15 July 2016 to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors' independence.

Voting by Poll

The Company expresses in each relevant corporate communication that the shareholders shall vote by poll so as to allow the shareholders to have one vote for every share of the Company held. The chairman of the meeting will explain the voting procedure and answer any questions from the shareholders regarding voting by poll in general meetings. The poll voting results of the Company's general meetings will be published on the websites of the Stock Exchange and the Company respectively on the same day after the general meetings.

Shareholders' Rights

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

In compliance with the Code, a shareholders communication policy was formulated on 28 March 2012 in order to ensure the shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company. The Board has taken appropriate steps to provide effective communication with the shareholders. The effectiveness of shareholders communication under the shareholders communication policy will be reviewed by the Board from time to time.

Constitutional Document

During the year ended 31 December 2016, there had not been any change in the Company's Memorandum and Articles of Association.

Conclusion

Going forward, the Company will continue to work diligently to maintain the highest level of corporate transparency. The timely disclosure of relevant corporate information includes annual and interim reports, statutory announcements, corporate presentation and press releases are available on the Company's website www.leyoutech.com.hk. Enquiries and proposals to be put forward at the shareholders' meetings can also be sent to the Board or senior management of the Company by sending e-mail to enquiry@leyoutechnologies.com, or directly through the questions and answers session at the shareholders' meetings of the Company.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Lin Qinglin ("Mr. Lin")

Mr. Lin, aged 62, was appointed as an executive Director and the Chairman of our Company on 17 December 2010. He is also the chairman of the nomination committee and a member of the remuneration committee of the Company.

Mr. Lin has received many honourable titles, including, inter alia, "Most Influential Entrepreneur in China" awarded by the China Economic Development Research Centre（中國經濟發展研究中心）, China Reform Forum Magazine（中國改革論壇雜誌社）and the Organising Committee of the Summit of China's most Influential Entrepreneurs（中國最具影響力企業家峰會組委會）and "Top 10 Outstanding Management Individuals of China in 2006-2007"（2006-2007年度中國十大傑出管理人物）awarded by the China Institute of Management Science（中國管理科學研究院）, the China Future Research Institution（中國未來研究會）and the Future and Development Magazine Press（未來與發展雜誌社）. He is also a representative of the Fujian Province People's Congress.

Mr. Law Kin Fat ("Mr. Law")

Mr. Law, aged 48, was appointed as an executive Director and the vice Chairman on 28 July 2015. He graduated from the University of Hong Kong with a Bachelor Degree in Social Science (Economics). He also obtained a Master degree in Finance and Investment from the University of Exeter in the UK. Mr. Law had served as a senior executive of Deutsche Bank Asia, Bank of America Merrill Lynch, ABN Amro Group NV, BNP Paribas Asia, JP Morgan Chase Bank, N.A., mainly responsible for equities sales and other related functions in Greater China region, Australia, and New Zealand markets for over 17 years.

Mr. Wu Shiming ("Mr. Wu")

Mr. Wu, aged 41, is an executive Director and deputy chief executive officer of our Company. Mr. Wu joined our Group as deputy chief executive officer in November 2010 and was appointed as an executive Director of our Company on 17 December 2010. He is responsible for overseeing the financial and operational performance of the Group. He is a qualified intermediate accountant and he obtained such qualification after he has passed the national examination jointly organised by the Ministry of Finance and the Ministry of Personnel of the PRC. Mr. Wu has over 16 years of experiences in accounting and financial management. Mr. Wu graduated from a course in foreign economic enterprise financial accounting at Jimei University（集美大學）in 1995.

Mr. Wu was appointed as an independent non-executive director of (i) China Putian Food Holding Limited (Stock Code: 1699) on 7 February 2012; (ii) Yueshou Environmental Holdings Limited (Stock Code: 1191) on 17 July 2014; and (iii) Theme International Holdings Limited (Stock Code: 990) on 22 May 2015. Mr. Wu was an independent non-executive director of Pak Tak International Limited (Stock Code: 2668) from September 2014 to August 2016.

Mr. Gu Zhenghao ("Mr. Gu")

Mr. Gu, aged 46, was appointed as an executive Director on 14 March 2017. He was graduated with a Bachelor's degree in Economics from Renmin University of China in July 1992. Mr. Gu has over 20 years of experience in the banking and investment industry. Mr. Gu worked in China Construction Bank Co., Ltd. Shenzhen Branch*（中國建設銀行股份有限公司深圳市分行）from July 1992 to July 2013, and also worked in Shenzhen Zhanfei Investment Limited（深圳市展飛投資有限公司）from August 2013 to March 2016. Mr. Gu serves as the Risk Management Controller at Shenzhen Tise Capital Management Limited（深圳泰智基金管理有限公司）since April 2016.

Mr. Hsiao Shih-Jin ("Mr. Hsiao")

Mr. Hsiao, aged 51, was appointed as an executive Director on 7 March 2016. He graduated from National Taiwan University with a Bachelor of Science in 1989. Mr. Hsiao has engaged in the manufacturing, investment and internet gaming industry for over twenty years. He is currently the chairman of Iwplay World Interactive Entertainment Technology Co., Ltd..

NON-EXECUTIVE DIRECTOR

Mr. Eric Todd ("Mr. Todd")

Mr. Todd, aged 55, was appointed as a non-executive Director on 24 July 2015. Mr. Todd possesses extensive professional experience in the auditing, financial management, investment and media industry. Mr. Todd holds a bachelor degree in Business Administration in Accounting and Finance from the School of Management of Boston University in Massachusetts, USA. Mr. Todd has qualified as an U.S. Certified Public Accountant in 1989 and was a member of the American Institute of Certified Public Accountants from 1989-2010.

Mr. Todd is currently an executive director and the chairman of Kong Shum Union Property Management (Holding) Limited (Stock code: 8181), an executive director of Hsin Chong Group Holdings Limited (Stock code: 404) and an independent non-executive director of Ngai Shun Holdings Limited (Stock code: 1246). Mr. Todd worked for the international accounting firm KPMG and the Standard Chartered Group between the periods 1985 to 1995. He was the finance director for several manufacturing and media production and distribution companies from 1999 to 2008. Mr. Todd has been working as a business consultant since 2009 specialising in the finance, investment and media sectors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Chung Ming ("Mr. Hu")

Mr. Hu, aged 44, was appointed as an independent non-executive Director on 17 December 2010. Mr. Hu is also the chairman of each of the audit committee and the remuneration committee and a member of the nomination committee of the Company. Mr. Hu has been a certified practicing accountant of the Australian Society of Certified Practising Accountants since 10 March 2000 and a fellow member of the Hong Kong Institute of Certified Public Accountants since January 2010. Mr. Hu worked in Ernst & Young Certified Public Accountants as an accountant from January 1997 to September 1999, and as a senior accountant from October 1999 to March 2000. Mr. Hu has been the chief financial officer of certain other companies, namely Lankom Electronics Limited from 2000 to 2003, China Flexible Packaging Holdings Limited（中國軟包裝控股有限公司）from 2003 to 2007, Yunnan Junfa Real Estate Company Limited（雲南俊發房地產有限責任公司）from 2007 to 2008 and Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (Stock Code: 1938) from 2009 to 2011 respectively. Mr. Hu is currently the chief financial officer and the company secretary of China Packaging Holdings Development Limited (Stock Code: 1439). Mr. Hu graduated from the University of Queensland with a bachelor's degree in commerce in December 1996.

Mr. Chan Chi Yuen ("Mr. Chan")

Mr. Chan, aged 50, was appointed as an independent non-executive Director on 24 July 2015. He is also a member of each of the audit committee, remuneration committee and nomination committee of the Company. He obtained a Bachelor degree with honours in Business Administration and a Master of Science degree with distinction in Corporate Governance and Directorship. He is a fellow of the Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants, and The Institute of Chartered Accountants in England and Wales. Mr. Chan Chi Yuen is a practising certified public accountant and has extensive experience in financial management, corporate development, corporate finance and corporate governance.

Mr. Chan Chi Yuen is currently an executive director and the chief executive officer of Noble Century Investment Holdings Limited (Stock code: 2322), an executive director of e-Kong Group Limited (Stock code: 524), an executive director and the chairman of Royal Century Resources Holdings Limited (formerly known as Kate China Holdings Limited) (Stock code: 8125), an independent non-executive director of Asia Energy Logistics Group Limited (Stock code: 351), China Baoli Technologies Holdings Limited (formerly known as REX Global Entertainment Holdings Limited) (Stock code: 164), Jun Yang Financial Holdings Limited (Stock code: 397), Media Asia Group Holdings Limited (Stock code: 8075), New Times Energy Corporation Limited (Stock code: 166), U-RIGHT International Holdings Limited (Stock code: 627) and Affluent Partners Holdings Limited (formerly known as Man Sang Jewellery Holdings Limited) (Stock code: 1466).

Mr. Chan Chi Yuen was an executive director of Co-Prosperity Holdings Limited (Stock code: 707) from December 2014 to October 2015, an executive director of South East Group Limited (now known as China Minsheng Drawin Technology Group Limited) (Stock code: 726) from December 2013 to July 2015, and an independent non-executive director of China Sandi Holdings Limited (Stock code: 910) from September 2009 to July 2014. The issued shares of all the aforesaid companies are listed and traded on the Stock Exchange.

Mr. Yang Chia Hung ("Mr. Yang")

Mr. Yang, aged 54, was appointed as an independent non-executive Director on 7 March 2016. He is also a member of audit committee of the Company. He graduated from University of California, Los Angeles with a Master of Business Administration in 1992. Mr. Yang has over 20 years' experience in finance, banking and investment industry. He was an associate of Morgan Stanley Asia from 1992 to 1994, a vice president of Lehman Brothers Asia Limited from 1994 to 1996 and an executive director of Goldman Sachs (Asia) LLC from 1997 to 1999 respectively. He was also a chief financial officer of Cellstar Asia Corporation from 1999 to 2004 and a chief executive officer of Rock Mobile Corporation from 2004 to 2007 respectively.

Mr. Yang has extensive experience in finance industry and corporate finance, and has been a key player in a number of initial public offering cases. Mr. Yang previously served as the chief financial officer of Airmedia Group (NASDAQ: AMCN), E-commerce China Dangdang Inc. (NYSE: DANG) and currently serves as the chief financial officer of Tuniu Corporation (NASDAQ: TOUR). Mr. Yang served as an independent director of IFM Investments Limited (OTCMKTS: CTCLY) from 2010 to 2015, and currently serves as an independent director and chairman of audit committee of Airmedia Group and China Online Education Group (NYSE: COE).

SENIOR MANAGEMENT

Chief Executive Officer

Mr. Wang Haitong, aged 46, has over 16 years of experience in investment management and investment banking industry. Before joining the Company, Mr. Wang held a number of senior investment roles at PAG, Goldman Sachs, and Mount Kellett Capital. Prior to his investment career, Mr. Wang held senior managerial roles in fixed income division at the Royal Bank of Scotland and UBS. He has extensive experience in investments, corporate finance, and business development. Mr. Wang holds an MBA from the University of Chicago.

COMPANY SECRETARY

Mr. Yau Yan Ming Raymond, aged 49, was appointed as Company Secretary on 24 July 2015. He has over 20 years of work experience in auditing, accounting, taxation, company secretarial, corporate finance and financial management, in both private and listed companies. Mr. Yau is a member of the Hong Kong Institute of Certified Public Accountants, American Institute of Certified Public Accountants, and the Hong Kong Institute of Directors. Mr. Yau is also a Certified Tax Adviser of the Taxation Institute of Hong Kong. Mr. Yau holds a master degree in science majoring in Japanese business studies and bachelor degree in business administration majoring in accounting in the United States of America.

He is currently an independent non-executive director of Unitas Holdings Limited (formerly known as Chanceton Financial Group Limited) (stock code: 8020) and the company secretary of Mega Expo Holdings Limited (stock code: 1360). He was an independent non-executive director of Mason Financial Holdings Limited (stock code: 273), Tack Fiori International Group Limited (stock code: 928), and Enterprise Development Holdings Limited (stock code: 1808), Birmingham International Holdings Limited (stock code: 2309) and chief executive officer of Capital VC Limited (stock code: 2324) and an executive director and the company secretary of Chinese Energy Holdings Limited (stock code: 8009).

Report of the Directors

The directors of the Company (the "Directors") are pleased to present this annual 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. The principal activities of the subsidiaries of the Company is development of video game. The Group ceased the activity of animal feeds and chicken breeds during the year.

RESULTS AND FINAL DIVIDEND

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 63 to 157.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

BUSINESS REVIEW

A discussion and analysis of the Group's performance during the year and the financial key factors performance indicators affecting its results and financial position are set out in the section headed "Management Discussion and Analysis" of this report.

Information about a fair review of, and an indication of likely future development in, the Group's business is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this report.

The environmental policies and performance, compliance with relevant laws and regulations and relationships with employees are also discussed under section headed "Environmental, Social and Governance Report" on pages 48 to 56.

Principal Risks and Uncertainties

The followings are the major risks and uncertainties currently faced or anticipated by the Group.

OPERATIONAL RISK

The Group is delicate to maintain its hardware and update on software to maintain the experience for our player which any sever and software problem and will affect the player's experience hence the game and the Company's reputation.

COMPETITION RISK

The Group faces competition in the online game industry. New technologies such as Virtual Reality and ever-changing hardware in both PC and mobile make the competition fiercer then before. The Group has dedicated much of the effort in utilising the existing players' comments for continue development in order to retain they involvement and prolong their play time. We also continue to research and develop new ideas to attract new players.

REGULATORY RISK

The Group faces different regulators when distributing the game into different countries. The Group will do adjustments to both the graphics and language to ensure all regulations are fulfilled.

FINANCIAL RISK

The Group is exposed to a variety of financial risks in the normal course of business, including interest rate risk, foreign exchange risk, credit risk and liquidity risk. For details of the financial risk, please refer to Note 41 to the consolidated financial statements. The Board is dedicated to ensuring the risk management practices of the Group are sufficient to mitigate the risks present in our businesses and operations as efficiently and effectively as possible.

Environmental Policy and Performance

Environmental policies and performance mainly means increasing attention of PRC government paid to environmental rules and policies and more strict regulatory requirements. As subsidiaries and newly acquired enterprises commenced into operation for a long while and lag behind certain environmental and duty requirements promulgated by PRC government. The Group monitors impact on business development closely raised from movements of environmental policy and external factors. Acting in an environmentally responsible manner and performing social responsibilities, the Group is committed to improving and maintaining the long term sustainability of the communities in which it operates. The Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in daily operation of the Group. Such initiatives include recycling of resources, energy saving measures and water saving practices.

Compliance with the Relevant Laws and Regulations

During the year under review, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

Relationships with Employees, Customers and Suppliers

The Group's management policies, working environment, career prospects and employees' benefits have contributed to building a good employee relations and employee retention of the Group. The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme. The management regularly reviews its employee's remuneration packages to ensure they are up to prevailing market standard.

The Group has established long term business relationships with its major suppliers and customers. The Group will endeavor to maintain its established relationship with these existing suppliers and customers.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited consolidated financial statements and the Prospectus and restated/reclassified as appropriate, is set out on page 158 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Group's share capital during the year, together with the reasons therefore, are set out in Note 37 to the consolidated financial statements.

A share option scheme (the "Share Option Scheme") was conditionally approved by a written resolution of the shareholders of the Company passed on 17 December 2010 and amended on 15 September 2016. The Share Option Scheme shall be valid and effective for a period of ten years commencing from 11 January 2011. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, where appropriate.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of any participant (the "Participant") which includes any full-time or part-time employee (including any executive and non-executive Director or proposed executive and non-executive Director), advisor, consultant, agent, contractor, client and supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group, and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company.

An offer for grant of options must be accepted within 20 business days from the offer date. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00. The subscription price for the share under the Share Option Scheme will be a price determined by the Board at its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the highest of: (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange for the 5 trading days immediately preceding the date of the grant; or (iii) the nominal value of a share.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company (the "Shares") in issue at any time. The maximum number of Shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period, is limited to 1% of the Shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the Shares in issue at any time or with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme is 166,000,000 shares, representing approximately 5.79% of the shares in issue as at the date of this report.

Details of the movement in the share options granted under the Share Option Scheme during the year ended 31 December 2016 are as follows:

Grantees	Date of grant of share options	Exercisable period	Exercise price of share option	Outstanding as at 1 January 2016	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2016
Directors							
Mr. Law Kin Fat	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	14,400,000	–	–	14,400,000
Mr. He Zhigang (Note)	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	7,200,000	–	7,200,000	–
Chief Executive							
Mr. Wang Haitong	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	14,400,000	–	–	14,400,000
Employees	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	21,600,000	–	21,600,000	–
Consultants	25 July 2015	25 January 2016 to 24 July 2025	HK$1.20	100,800,000	–	–	100,800,000
Total:				158,400,000	–	28,800,000	129,600,000

Note: Mr. He Zhigang resigned as an executive Director with effect from 4 May 2016, and the share options granted to him were lapsed one month after his resignation.

EQUITY-LINKED AGREEMENTS

Save as those disclosed in the sections headed "Share Capital and Share Options" in this Report of the Directors, no other equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2016.

CHARITABLE DONATIONS

During the year, the Group made approximately RMB728,000 charitable donations (2015: RMB1,165,000).

PRE-EMPTIVE RIGHTS

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

RESERVES

As at 31 December 2016, the Company's reserves available for distribution to equity holders comprising share premium account less accumulated losses amounted to approximately RMB765,446,000.

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 67 and Note 37 to the consolidated financial statements respectively.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

The Company has taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, sales to the Group's largest and five largest customers accounted for approximately 28.4% and approximately 88.8% of the Group's total sales respectively. For the year ended 31 December 2016, purchases from the largest and five largest suppliers of the Group accounted for approximately 28.6% and approximately 76.4% of the Group's total cost of sales respectively.

None of the Directors or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers during the year ended 31 December 2016.

DIRECTORS

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

Executive Directors:

Mr. Lin Qinglin *(Chairman)*

Mr. Law Kin Fat *(Vice Chairman)*

Mr. He Zhigang *(resigned on 4 May 2016)*

Mr. Wong Ka Fai, Paul *(resigned on 14 March 2017)*

Mr. Gu Zhenghao *(appointed on 14 March 2017)*

Mr. Wu Shiming

Mr. Hsiao Shih-Jin *(appointed on 7 March 2016)*

Non-executive Director

Mr. Eric Todd

Independent Non-executive Directors:

Mr. Hu Chung Ming

Mr. Chau On Ta Yuen *(resigned on 4 May 2016)*

Mr. Chan Chi Yuen

Mr. Yang Chia Hung *(appointed on 7 March 2016)*

In accordance with Article 84(1) of the Company's Articles of Association, Messrs. Law Kin Fat, Wu Shiming and Hu Chung Ming will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 83(3) of the Company's Articles of Association, Mr. Gu Zhenghao will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Director an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 33 to 36 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Law Kin Fat entered into a service agreement with the Company for an initial term of three years with effect from 28 July 2015.

Mr. Gu Zhenghao entered into a service agreement with the Company for an initial term of three years with effect from 14 March 2017.

Mr. Hsiao Shih-Jih entered into a service agreement with the Company for an initial term of three years commencing from 7 March 2016.

Mr. Eric Todd entered into an appointment letter with the Company for an initial term of three years with effect from 24 July 2015.

Mr. Chan Chi Yuen entered into an appointment letter with the Company for an initial term of three years with effect from 24 July 2015.

Save as aforesaid, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Save as the share options granted under the Share Option Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service contracts disclosed above and the connected transactions mentioned below, no Director had a material interest, either directly or indirectly, in any transaction, arrangements and contracts of significance to which the Company or any of its subsidiaries was a party at any time during the year or at the end of the year.

DIRECTORS' EMOLUMENTS

The Directors' emoluments are subject to shareholders' approval at general meetings. The emoluments to be received by the Directors will be determined by the Board based on the adopted remuneration policy reviewed by the Remuneration Committee of the Company, with reference to the Directors' qualification and experience, responsibilities undertaken, contribution to the Group, and the prevailing market level of remuneration of similar position.

Emolument Policy and Long-Term Incentive Plan

To attract and retain talent and calibre, the Company provides a competitive remuneration package to its executive Directors and senior management. This comprises basic monthly salary and long-term incentive plan which includes share option scheme to subscribe for the Shares of the Company. Through job evaluation and job matching, the Group ensures the pay is internally equitable. Besides, the Group ensures external competitiveness of the pay through reference to market survey and data.

The emoluments payable to the Directors and senior management are set out in Notes 12 and 13 to the consolidated financial statements.

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

As at 31 December 2016, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in shares and underlying shares of the Company

Name of Director/ Chief Executive	Capacity/nature of interests	Number of ordinary shares/ underlying shares held		Approximate percentage of the Company's issued share capital
Mr. Law Kin Fat	Beneficial owner	14,400,000	(Note 1)	0.50%
Mr. Hsiao Shih-Jin	Interest in controlled corporation	545,050,000	(Note 2)	19.00%
Mr. Wang Haitong	Beneficial owner	14,400,000	(Note 1)	0.50%

Notes:

1. These interest are derived from the share options granted by the Company, details are set out in the section headed "Share Capital and Share Option".

2. These 545,050,000 shares are held through Timerich Technology Limited, a company incorporated in Hong Kong, and wholly and beneficially owned by Mr. Hsiao Shih-Jin.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, the interests or short positions of the persons (other than the Directors or chief executives of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Capacity/nature of interests	Number of ordinary shares held	Percentage of the Company's issued share capital
Timerich Technology Limited	Beneficial owner	545,050,000	19.00%

Note: Timerich Technology Limited, a company incorporated in Hong Kong, is wholly and beneficially owned by Mr. Hsiao Shih-Jin, an executive Director of the Company

Save as disclosed above, as at 31 December 2016, no person (other than the Directors or chief executives of the Company) had any interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required under the Listing Rules throughout the year.

CONNECTED TRANSACTION

1. On 28 April 2016, Multi Dynamic Games Group Inc. ("Multi Dynamic Games"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement, among other parties, with 2375249 Ontario Ltd., 2475202 Ontario Ltd., 2475200 Ontario Ltd. and Digital Extremes Employee Share Trust (the "39% Vendors"), pursuant to which each of the 39% Vendors shall sell, as the legal and beneficial owner, and Multi Dynamic Games shall purchase the aggregate of 7,800,000 common shares and 3,900 class B special shares of Digital Extremes Ltd., representing 39% of the issued share capital of Digital Extremes Ltd. at the aggregate consideration of US$65,028,688 (equivalent to approximately HK$503,972,335), subject to the terms and conditions set forth in the new shareholders' agreement and the sale and purchase agreement.

   Given that among the 39% Vendors, 2375249 Ontario Ltd., 2475202 Ontario Ltd. and Digital Extremes Employee Share Trust are connected persons of the Company, such acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

2. On 10 August 2016, the Company and Ms. Fu Jianping (the "Purchaser") entered into the sale and purchase agreement, pursuant to which, the Company conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of Sumpo International Holdings Limited (the "Target Company") at a consideration of RMB214,000,000 (equivalent to approximately HK$258,000,000), subject to the terms and conditions of the sale and purchase agreement.

   Since the Purchaser is an associate of an executive Director, Mr. Lin Qinglin, being a connected person of the Company, the Purchaser is a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

Save for the above and those related party transactions as set out in Note 42 to the consolidated financial statements. There was no connected transactions carried out during the year ended 31 December 2016.

The Directors (including the independent executive Directors) believe that the related party transactions set out in the Note 42 to the consolidated financial statements were carried out in the ordinary course of business of the Company and were on normal commercial terms.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Directors are considered to have interests in any business which is likely to compete directly or indirectly with that of the Group.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2016.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed in this annual report, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders and their subsidiaries at any time during the year.

CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

Details of the Group's corporate governance practices can be found in the Corporate Governance Report contained on pages 16 to 32 in this annual report.

AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2016 have been audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the conclusion of the Company's forthcoming annual general meeting. A resolution for the reappointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year will be proposed at the Company's forthcoming annual general meeting.

On behalf of the Board

Lin Qinglin
Chairman

Hong Kong, 30 March 2017

Environmental, Social and Governance Report

OVERVIEW:

In accordance with the Appendix 27 Environmental, Social and Governance Guide (the "**ESG Guide**") of the Rules Governing The Listing Of Securities On The Stock Exchange of Hong Kong Limited, the Group reports herein the management approach, strategy, priorities, objectives, actions taken and performance on the subject environment and social areas and aspects, and assesses their effects on the sustainable development of the Group, environment and society.

At the beginning of 2016, the Group continued its poultry and online video game business, though the Board already decided to sell out the former and to focus and expand on the latter business. By mid June, the Group completed its acquisition up to 97% equity interest of Digital Extremes, a leading next generation Canadian studio developing Free-to-Play (F2P), AAA grade multi-platform online video game developer and operator, and by September disposed of the poultry business. The Group had honored all its environmental and social obligations on the poultry operation before its sale. The ESG reporting herein therefore focuses on our online video game business and activities only.

The Group envisions to be a world leading online video game developer and provider to give satisfaction and happiness to our players as well as stakeholders, and be an environmentally and socially responsible corporation. In respect of the subject environmental and social areas and aspects, the Group has implemented eco-friendly and humanistic policies and regulations, and has taken appropriate measures and actions to support the environment, employees, business partners and society, which are highlighted below:

1. Scope of coverage: This report covers the main business and activities of the Group and its main operating subsidiaries in Toronto, Canada and Shenzhen, China for the period ended 31st December 2016.

2. Management, Approach and Strategy: The Board resolved and nominated the Group's CEO to be responsible for the ESG compliances, who in practice has delegated the regional general managers and department heads to implement the approved policies and regulations, and to take appropriate and necessary actions on the subject environmental and social areas and aspects. The regional general managers submit performance reports on their related ESG issues to the CEO who then monitors with reference to the key performance indicators ("KPIs") established on a regular basis, and will report only to the Board if there is any significant issue occurred.

   The Board understands that ESG issues will change in response to changes in technological, social, economical, legal and political environments and conditions, and have to be managed on an on-going basis with responsibility and high ethical standards. The Group is committed to conduct business in a transparent, equitable, legal and socially responsible manner in order to achieve sustainable development of the environment and society as well as itself. The Group will participate in meetings and gatherings with stakeholders to understand their expectations and comments on its ESG policies and actions taken.

MATERIAL ENVIRONMENTAL AND SOCIAL AREAS, ASPECTS AND KPIS

Environmental

Overview

The Group's online video game business involves game design and production, software development, sales, marketing and servicing. This type of business and activity will not generate any hazardous emissions and wastes. Our main operation is in Toronto, Canada serving the global online video game market, and a new operation was recently established in Shenzhen, China serving the Greater China market. The operation in Toronto has been operating in an eco-friendly and responsible manner for many years, which provides a model for our Shenzhen operation to follow under the requirements of the Chinese government. The Group also endeavors to comply with international and local laws and regulations regarding environmental protection and adopts effective measures to achieve efficient use of resources, energy savings and waste reduction. Green initiatives and measures have been introduced and adopted in daily operation including reusing and recycling of resources, energy saving measures and water saving practices.

Emissions

The Group complies strictly with the environmental laws, rules and regulations and installs eco-friendly equipment and system in all our offices where most of our activities are based, and does not produce any hazardous air emissions, greenhouse gases or waste. The Group does not require or own a large fleet of transport vehicles, and has encouraged its employees to use public transport and carpooling as an initiative to reduce green-house gas generation. Carbon dioxide (CO_2) is the only green-house gas generated as an indirect emission from the use of electricity. The Group including its headquarter and subsidiaries' offices had no record of penalty or warning related to air, water and waste pollution or discharges from any environmental authorities in 2016.

As an online video game developer and operator, the Group uses a large amount of information technology equipment and related accessories such as servers, computers, printers, disks, inks, cables, etc. We are aware that the waste of such equipment and accessories have to be handled properly and sold to recycling collectors.

Although our activities do not generate any hazardous air and greenhouse gas emissions and waste, the Group would like to support combating global warming by reducing CO_2 emission which in our case is an indirect one through the use of electricity. A "CO_2 Emission Record" has been established as a KPI to alert the management to control electricity consumption.

Use of Resources

Our operation only consumes electricity and water in a normal office routine requirement. We do not use raw materials or even packaging materials in our direct production and sale, and only paper, stationery, computer appliances and accessories are used. We have introduced the following green practices to encourage our staff to consume less energy, water and paper in our offices:

Energy Saving:

- Switch off electrical appliances when they are not used or needed;
- Choose electrical appliances and light bulbs such as LED light with energy saving capabilities;
- Use natural ventilation to replace air-conditioning whenever possible;
- Support "Energy charter on Indoor Temperature" by maintaining a higher/lower temperature for summer and winter to reduce energy consumption;
- Install renewable energy such as solar energy;
- Conduct regular energy consumption check.

We target to reduce the use of electricity in a smart and conscious way which will also reduce indirect carbon dioxide generation and emission.

Water Saving:

- Smart use of water including no excessive consumption, prohibiting taps to be on for no purpose, multi-usage of water if possible;
- Recycling water for reuse purpose;
- Conduct regular consumption check.

Paper Saving:

- Application of computer technology such as communication and storing documents in electronic form;
- Smart use of paper including use of paper on both sides, reuse of paper-made products such as envelopes and folders;
- Use recycled paper;
- Conduct regular consumption check.

As said above, to assist in reducing CO2 generation and emission, the Group has set up an "Electricity Consumption Record" as a KPI to monitor the use of electricity.

The Environment And Natural Resources
Our activities do not directly use much natural resources nor produce any hazardous emissions or waste. We do not have any significant adverse impacts on the environment as well. The Group has already implemented green practices in our operation and offices, and has also been constantly raising the awareness and consciousness of its staff to save natural resources and to act eco-friendly.

Material Social Aspects And KPIs
Employment and Labour Practices
Overview
As an online video game developer and operator, the management is fully aware that employees are the most valuable asset, and therefore implements supportive Human Resources strategies and policies ensuring to provide a pleasant, equitable and grow-together working environment to all the employees to achieve a win-win situation.

Employment
The Group instructs each office to apply employment and labour practices according to the requirements of the local labour laws and regulations. The Group assures employees with equal opportunities on recruitment, promotion, growth and development, compensation and benefits; all job positions, qualified job applications, internal transfers and promotions are on no discrimination on sex, race, religion, gender, age and disability basis; and all employment terms and conditions will be in full compliance with the local employment laws and regulations. All employees have to sign employment contracts with the local offices.

The recruitment process of the Group is transparent. All positions open for hiring are advertised and applications from external sources or internal referral received will go through a standard selection process according to the requirements of the position without any discrimination. After background checks and upon finalising the employee selection, offer letter will be issued and thereafter contract will be signed before commencement of works.

Employees' remunerations are determined with reference to the prevailing market level as well as their competency, qualifications and experience. Discretionary bonus based on individual performance will be paid to the employees as recognition and a reward for their contributions to the Group. The Group will also pay the statutory benefits to all qualified employees, including but not limited to mandatory provident fund, medical and social insurances.

Employment contract and employee handbook are written according to the labour laws, stating clearly the clauses that bind both the employer and the employee without any unfair or hidden clauses. There was no employment related legal dispute on the record for the year.

An "Employment Record" listing the total number of employees and salaries, and with breakdown on gender, age, and qualifications has been maintained as a KPI and will be regularly updated to allow the management to monitor the employment status.

Health and Safety

The Group treasures its employees and has equipped its offices with adequate facilities and equipment to ensure a safe, healthy, pleasant and enjoyable working environment. The Group requires all employees to strictly observe our health and safety policies and exercise a cautionary approach on their works. In compliance with the local Employment Ordinances, the Group has insured all the qualified employees with the locally required insurance.

The Group has set up an "Accidents and Injuries Record" as a KPI, listing the number and reasons of the cases to alert the management on employees health and safety issues. The Group did not have any fatal accidents and injuries for 2016.

Development and Training

As our works are technology based which demands mastering of the latest art and technique of modern information technology as well as high innovative ability, the quality and professional skills of our employees are important. The Group is therefore willing to invest on employees training and development. The Group has designed and offered specialised on-the-job training programs to train new employees. The Group has also encouraged employees to attend external training programs relevant to their work and to improve their skills and knowledge, and will sponsor the fees upon application.

The Group has set up a "Training Record", listing the types of programs, number of attendants and costs as a KPI for the management to review regularly.

Labour Standard

To employ and to retain highly qualified and capable employees, the Group has implemented local and international employment rules and regulations to enhance the practices on labour employment and standards. We had not violated any provisions under the Labour Laws and Employment Ordinances in any of our offices in 2016. We have honoured all of our obligations towards the employees and have built a safe, healthy and pleasant working environment in all of our offices. We have not violated any provisions under the Labour Laws and Employment Ordinances, no labour disputes recorded and no child or forced labour had been employed in all of our offices in 2016. Our office in Toronto was awarded the following awards and recognitions to evidence our high labour standards practiced:

- 2013 Top Employer for Young people, awarded by Mediacorp Canada Inc.
- 2013 Financial Post Ten Best Companies to Work For, awarded by Financial Post/Mediacorp Canada Inc.
- 2014 Canada HR Team of the Year, awarded by HR Awards
- 2015 & 2016 Canada's Top 100 Employers

Operation Practices

Supply Chain Management

To be a socially responsible corporation, the Group has approved and enforced a detailed "PURCHASING POLICY" subject to variations of the local practices. It contains policies and procedures with respect to procurement including types of purchases, the approval process, and methods of payment. It is designed to ensure that the purchase of all goods and services required for the satisfactory operation of the related office is handled in a timely, efficient and effective manner with due respect to best practices.

The procurement in each regional office is combined and centralised under one set of policy and operation in order to allow for consistency in guidelines and application hereof, as well as take advantage of economies of scale and potential for standardisation.

Strict assessment of the suppliers is conducted to ensure that the suppliers are not only committed to the cost and quality of the products produced, but also committed to the compliance of laws, rules and regulations. All suppliers prior to being engaged are requested to submit all basic legal certifications and technical capability supporting documents such as ISO certifications and Product Test Reports to ensure that the suppliers/manufacturers are compliant with the government and meet the regulatory standards.

The Group's purchasing policy and process have been in compliance of the local laws and minimised malpractices.

The Group has set up a "Suppliers Record" listing out the main items of purchases and the number of local and overseas suppliers as a KPI for the management to review and to monitor.

Products Responsibility

Sales:

The Group has designed and enforced a "CONTRACT NEGOTIATION, MANAGEMENT AND APPROVAL" policy document subject to variation of local practices. The purpose of this policy document is to outline the various policies and procedures surrounding significant contracts (for example in our office in Toronto office with commitments greater than CAD5,000/year) entered; the authority of the delegated negotiators; the internal approval and signature process; and the contract management and maintenance process. The Group firmly believes that its sales policies and process have also complied with the local laws and reduced any malpractices.

The Group's online games have been operated by the subsidiaries' platforms in Toronto and Shenzhen, and the sales have been either on direct or through our contracted agency internet platforms. Regardless of the sources of sales, the Group has guaranteed satisfactory online video game services through high quality of technical system maintenance and after sales services provided.

The Group has obtained the following awards and recognitions for "Warframe" online video game:

- 2013 Best Free to Play of the Year, awarded by Incgammers.com
- 2014 Best Free to Play Game, awarded by MMOBomb
- 2015 Best Community, Best Expansion, Favourite Action, awarded by MMO Reader's Choice

And, our office in Toronto has obtained the following awards and recognitions:

- 2015 Fastest Growing Tech Company, awarded by Deloitte
- 2016 Entrepreneur of the Year, awarded by Ernst & Young

To be responsible for our social obligations, the Group has online advised our online game players to play games under proper conditions and followed the government rules and regulations.

The Group had not recorded any complaints and refunds on "quality" of our online games in 2016.

The Group has set up a "Sales Checks Record" listing the numbers of complaints and refunds due to quality of our online video games as a KPI to alert the management to take the necessary remedial actions.

Intellectual Property Rights:

The Group has adopted and implemented an "INTELLECTUAL PROPERTY MANAGEMENT" policy document. The purpose of this policy document is to outline the various policies and procedures surrounding our local offices' intellectual property ('IP') and the related management, registration and tracking. Our subsidiaries have used our own created proprietary technology and they are filled with original characters, locations, music and sounds. It is important to ensure that adequate measures are in place to safeguard that IP against inappropriate used by a third party.

Also, our games are filled with unique characters, locations and items, and some of these are frequently selected for supplemental merchandising efforts, such as designs for t-shirts, hats and figurines. We have therefore registered for some valuable ones as registered/unregistered trademarks. Under General trademark laws, for unregistered marks will usually provide a moderate level of protection to the extent we can prove we are the original creators of the mark. Trademarks are tracked using a spreadsheet that is saved on a secure sever, and registration details, including deadlines and expiries are all tracked within this document.

The Group respects and strictly complies with international IP rights to protect our own IP properties and had no recorded of any IP right infringement on others.

Privacy

The Group's business operation has generated large volumes of private, confidential and sensitive information of suppliers, co-operation technical partners including the operation status and financial positions, commercial terms of contracts, etc, and personal background information of our online video games buyers. These types of information are extremely sensitive and important, and by law, we have to cautiously keep and safeguard them. The Group is fully aware of its obligation, and has taken measures to ensure safe keeping of the information. Our Employees' Handbook contains CONFIDENTIAL provisions and employees are prohibited to access without approvals and/or to leak the private and confidential information. Legal actions will be taken on any violation. No privacy information leakage was reported in 2016.

Anti-Corruption

With implementation of clear policies on most of our operation areas including but not limited to purchases, sales, finance, and the adoption of a high Code of Standard especially on the management, the Group reported no bribery nor corruption charges in 2016.

Community Investment

The Group supports investment back to the community, and in 2016 the Group through its Canadian subsidiary donated to education institutions, medical units, NGOs and sponsored various cultural and humanitarian activities for a total amount of approximately CAD144,000.

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
LEYOU TECHNOLOGIES HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Leyou Technologies Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 63 to 157, 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the key audit matter
Revenue recognition of game publishing services	
Refer to Notes 3, 4 and 6 to the consolidated financial statements.	
Computer and video game revenue of approximately RMB855,883,000 for the year ended 31 December 2016 was recognised over the estimated average period that paying players typically play the game. The proceeds from sale of virtual currency through on-line game was recognised as deferred revenue. The determination of estimated average playing period of paying players for the game require significant management estimation.	Our procedures in relation to revenue recognition of game publishing services included: • Evaluating whether the Group's revenue recognition policies in compliance with HKFRSs for the game publishing services; • Obtaining the data used for calculation of game publishing services revenue and deferred revenue generated by game publishing services system; and • Performing test of details, on a sample basis, by comparing the details and amounts of the transactions selected with the details and amounts shown on the underlying documentation. We found that the accounting estimates made by the management in relation to the revenue recognition to be reasonable based on available evidence.

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the key audit matter
Impairment assessment of goodwill	
Refer to Note 20 to the consolidated financial statements.	
The Group has goodwill of approximately RMB190,093,000 relating to the on-line gaming operation and retail game development business as at 31 December 2016. Management performed impairment assessment of on-line gaming operation and retail game development business and concluded that no impairment is necessary to provide. This conclusion was based on value in use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to the management's impairment assessment of goodwill included: • Evaluating the competency, capabilities and objectivity of the independent professional external valuer; • Assessing the appropriateness of the valuation methodology, key assumptions and estimates used based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions used based on our knowledge of the business and industry; and • Checking, on a sampling basis, the accuracy and relevance of the input data used. We found that the assumptions made by the management in relation to the value in use calculations to be reasonable based on available evidence.

OTHER INFORMATION

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 judgement 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 Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895
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 (Restated)
Continuing operation			
Revenue	6	**855,883**	322,654
Cost of sales		**(365,434)**	(152,448)
Gross profit		**490,449**	170,206
Other revenue and gains	7	**7,288**	24,086
Net loss on financial assets at fair value through profit or loss	11	**(25,715)**	(4,104)
Impairment loss of available-for-sale financial assets		**(7,744)**	(17,558)
Loss on disposal of available-for-sale financial assets		**(15,403)**	–
Selling and distribution expenses		**(32,972)**	(15,782)
Amortisation of intangible assets		**(114,085)**	(45,909)
Administrative expenses		**(130,879)**	(47,395)
Finance costs	8	**(26,553)**	(477)
Other operating expenses		**(1,454)**	(3,788)
Equity-settled share-based payment expenses		**(12,824)**	(22,982)
Profit before taxation	11	**130,108**	36,297
Taxation	9	**(63,894)**	(38,234)
Profit/(loss) for the year from continuing operation		**66,214**	(1,937)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	10	**26,922**	(55,983)
Profit/(loss) for the year		**93,136**	(57,920)
Other comprehensive income/(loss) for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Loss on revaluation of available-for-sale financial assets during the year		**(7,744)**	(17,558)
Reclassification relating to fair value loss on available–for-sale financial assets		**7,744**	17,558
Exchange differences on translating foreign operation		**80,619**	(9,791)
Reclassification adjustments relating to foreign operations disposed of during the year	10	**(4,798)**	–
Other comprehensive income/(loss) for the year, net of income tax		**75,821**	(9,791)
Total comprehensive income/(loss) for the year		**168,957**	(67,711)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
Profit/(loss) for the year attributable to:			
Owners of the Company			
– from continuing operation		22,835	(27,346)
– from discontinued operations		25,741	(54,280)
Non-controlling interests			
– from continuing operation		43,379	25,409
– from discontinued operations		1,181	(1,703)
		93,136	(57,920)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		100,116	(91,417)
Non-controlling interests		68,841	23,706
		168,957	(67,711)
Earnings/(loss) per share			
From continuing and discontinued operations			
Basic and diluted (RMB cents per share)	15	1.69	(3.04)
From continuing operation			
Basic and diluted (RMB cents per share)	15	0.80	(1.02)

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

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	17	15,280	377,476
Investment property	18	–	887
Prepaid lease payments	19	–	48,416
Prepayment for prepaid lease payments		–	25,331
Goodwill	20	190,093	172,453
Intangible assets	21	418,445	485,553
Development expenditure	22	4,319	2,700
Biological assets	24	–	5,513
Available-for-sale financial assets	28	30,741	63,562
Deferred tax assets	16	–	3,361
		658,878	1,185,252
Current assets			
Inventories	23	1,885	188,615
Biological assets	24	–	15,502
Trade receivables	25	95,343	114,141
Deposits paid, prepayments and other receivables	26	419,261	204,093
Prepaid lease payments	19	–	1,319
Financial assets at fair value through profit or loss	27	249,236	186,263
Tax recoverable		7,135	–
Pledged bank deposits	29	–	14,390
Cash and bank balances	29	91,044	130,583
		863,904	854,906
Current liabilities			
Trade payables	30	1,871	68,809
Accruals, deposits received and other payables	31	53,100	101,277
Bank borrowings	32	–	275,000
Deferred revenue	33	23,596	18,390
Tax payable		–	1,907
Bond	34	145,523	–
		224,090	465,383
Net current assets		639,814	389,523
Total assets less current liabilities		1,298,692	1,574,775

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Equity			
Share capital	37	**236,606**	236,606
Share premium and reserves		**791,122**	932,917
Equity attributable to owners of the Company		**1,027,728**	1,169,523
Non-controlling interests		**8,930**	223,778
Total equity		**1,036,658**	1,393,301
Non-current liabilities			
Deferred tax liabilities	16	**112,414**	144,922
Deferred revenue	33	**–**	33,085
Bond	34	**145,785**	–
Debenture	35	**3,835**	3,467
		262,034	181,474
Total equity and non-current liabilities		**1,298,692**	1,574,775

Approved by the board of directors on 30 March 2017 and signed on its behalf by:

Law Kin Fat	**Wu Shiming**
Executive Director	*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

	Equity attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000 (note (a))	Statutory reserve RMB'000 (note (b))	Other reserve RMB'000	Share option reserve RMB'000 (note (c))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2015	167,392	137,512	17,423	5,205	46,240	38,193	–	81,169	493,134	14,733	507,867
(Loss)/profit for the year	–	–	–	–	–	–	–	(81,626)	(81,626)	23,706	(57,920)
Other comprehensive loss for the year	–	–	–	(9,791)	–	–	–	–	(9,791)	–	(9,791)
Total comprehensive (loss)/income for the year	–	–	–	(9,791)	–	–	–	(81,626)	(91,417)	23,706	(67,711)
Issue of shares under placing	69,214	697,985	–	–	–	–	–	–	767,199	–	767,199
Transaction cost on placement of shares	–	(19,696)	–	–	–	–	–	–	(19,696)	–	(19,696)
Transfer to statutory reserve	–	–	–	–	2,182	–	–	(2,182)	–	–	–
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	22,982	–	22,982	–	22,982
Arising on the acquisition of subsidiaries	–	–	(2,679)	–	–	–	–	–	(2,679)	185,339	182,660
As at 31 December 2015 and 1 January 2016	236,606	815,801	14,744	(4,586)	48,422	38,193	22,982	(2,639)	1,169,523	223,778	1,393,301
Profit for the year	–	–	–	–	–	–	–	48,576	48,576	44,560	93,136
Other comprehensive income for the year	–	–	–	51,540	–	–	–	–	51,540	24,281	75,821
Total comprehensive income for the year	–	–	–	51,540	–	–	–	48,576	100,116	68,841	168,957
Reclassification adjustments relating to disposal of subsidiaries (Note 10)	–	–	(17,423)	–	(48,422)	(38,193)	–	104,038	–	(14,210)	(14,210)
Acquisition of additional interest in subsidiaries (Note 38)	–	–	–	21,572	–	(276,307)	–	–	(254,735)	(169,944)	(424,679)
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	–	12,824	–	12,824	–	12,824
Lapse of share option	–	–	–	–	–	–	(5,812)	5,812	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(99,535)	(99,535)
As at 31 December 2016	**236,606**	**815,801**	**(2,679)**	**68,526**	**-**	**(276,307)**	**29,994**	**155,787**	**1,027,728**	**8,930**	**1,036,658**

Note:

(a) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the People's Republic of China (the "PRC").

(b) Statutory reserve

Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(c) Share option reserve

Share option reserve relates to share options granted under the Company's share option scheme and which are reclassified to share capital and share premium when the share option were exercised, and to accumulated losses when the share options were lapsed or expired.

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Operating activities		
Profit before taxation from continuing operation	130,108	36,297
Profit/(loss) before taxation from discontinued operations	18,169	(52,688)
Adjustments for:		
Interest income	(6,149)	(1,083)
Dividend received	–	(257)
Interest expenses	37,316	17,307
Gain on disposal of subsidiaries	(10,411)	–
Impairment loss on available-for-sale financial assets	7,744	17,558
Loss on disposal of available-for-sale financial assets	15,403	–
Net loss on disposal of property, plant and equipment	33	829
Depreciation and amortisation	143,577	113,080
Equity-settled share-based payment expenses	12,824	22,982
Reversal of impairment recognised on other receivables	–	(5)
Fair values of agricultural produce on initial recognition	(109,356)	(61,063)
Reversal of fair values of agricultural produce due to hatch and disposals	103,089	62,529
Net loss on financial assets at fair value through profit or loss	36,628	8,222
Change in fair values less costs to sell of biological assets	(4,034)	(4,984)
Operating cash flows before movements in working capital	374,941	158,724
Increase in biological assets	(909)	(1,203)
Increase in trade receivables	(11,759)	(23,264)
Increase in deposits paid, prepayments and other receivables	(241,919)	(76,779)
Increase in financial assets at fair value through profit or loss	(124,634)	(135,480)
Decrease/(increase) in inventories	85,259	(61,928)
Decrease in trade payables	(7,102)	(67,803)
Increase in accruals, deposits received and other payables	28,997	17,030
Cash generated from/(used in) operations	102,874	(190,703)
Interest paid	(22,024)	(17,003)
Income tax paid	(79,220)	(38,848)
Net cash generated from/(used in) operating activities	1,630	(246,554)

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Investing activities		
Dividends received	–	257
Dividends paid	(99,535)	–
Interest received	565	1,083
Net cash outflow from acquisition of subsidiaries	–	(358,453)
Net cash inflow from disposal of subsidiaries	194,436	–
Proceeds from disposal of property, plant and equipment	829	2,608
Purchase of property, plant and equipment	(9,279)	(64,362)
Increase in development cost capitalised	(4,220)	(13,149)
Decrease/(increase) in prepayment of prepaid lease payment	342	(7,260)
Proceeds from disposal of available-for-sale financial assets	15,884	–
Purchase of available-for-sale financial assets	–	(81,120)
Decrease/(increase) in pledged bank deposits	14,390	(6,326)
Increase in deferred revenue	5,675	9,016
Net cash generated from/(used in) investing activities	119,087	(517,706)
Financing activities		
Repayments of bank borrowings	(108,787)	(382,933)
Proceeds from bank borrowings	99,600	400,113
Repayment of obligation under finance lease	–	(2,411)
Issue of share	–	767,199
Issue of bond	291,484	–
Proceed on acquisition of partial interest in a subsidiary	(424,679)	–
Payment for transaction costs attributable to issue of shares	–	(19,696)
Net cash (used in)/generated from financing activities	(142,382)	762,272
Net decrease in cash and cash equivalents	(21,665)	(1,988)
Cash and cash equivalents at beginning of the year	130,583	128,332
Effect of foreign exchange rate changes, net	(17,874)	4,239
Cash and cash equivalents at end of the year	91,044	130,583

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

1. GENERAL INFORMATION

Leyou Technologies Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 22 February 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Suite 1020-22, 10th Floor, Two Pacific Place, 88 Queensway, Hong Kong respectively.

The consolidated financial statements included the financial statements of the Company and its subsidiaries (collectively referred to as the "Group"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand (RMB'000) except otherwise indicated.

The principal activity of the Company is investment holdings. The activities of its principal subsidiaries are set out in Note 48 to the consolidated financial statements.

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 the new and revised standards, amendments and interpretations ("new and revised HKFRSs") (which included all HKFRSs, Hong Kong Accounting Standards ("HKAS") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2016. A summary of the new and revised HKFRSs are set out as below:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
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 Plant
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidated Exception
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 in the consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
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 Transaction[2]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
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]

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 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 16 "Leases"

HKFRS 16 was issued on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. HKFRS 16 replaces all existing lease accounting requirements and represents a significant change in the accounting and reporting of leases, with more assets and liabilities to be reported on the consolidated statement of financial position and a different recognition of lease costs.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees.

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.

The directors of the Company (the "Directors") anticipate that the application of HKFRS 16 in the future may impact 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 until a detailed review has been completed.

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

Amendments to HKAS 16 and HKAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 to be 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 reporting periods. All other debt investments and equity investments are measured at their fair values 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.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, 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 fair value through profit or loss was presented in profit or loss.

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

HKFRS 9 "Financial Instruments" (continued)

- 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 of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the application of HKFRS 9 in the future may impact 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 until a detailed review has been completed.

Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

Amendments to HKFRS 10 and HKAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (continued)

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, HKASs 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of preparation

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

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

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.

The principal accounting policies are set out below.

Basis of 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
- any 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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

- 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;

- 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

- 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.

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 HKFRSs.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

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.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generated units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU 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 CGU is less than its 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 on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of profit or loss and other comprehensive income as follows:

(a) Sales of goods

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

(b) Contract work

For contract work, advances received from publishers are recognised as revenue based on the percentage-of-completion basis. Contractual amounts are received by the Group upon successful completion of contractual milestones. Contract execution payments, received in advance of services being rendered at the beginning of each contract, are deferred and recognised in revenue on a straight-line basis over the contract period. Royalties are received from publishers after the launch of the product. There are receivable quarterly based on a calendar year as calculated by the publisher.

(c) Game publishing

Game publishing represent on-line game revenue from current operations. The proceeds from the sale of virtual goods are initially recorded in deferred revenue. Revenue is recognised over the estimated average period that paying players typically play the game. Future paying player usage patterns and behaviour may differ from the historical usage patterns and therefore the estimated average playing periods may change in the future.

(d) Sales of merchandise goods

Revenue from sales of merchandise goods is recognised when the risk and rewards of the goods have been transferred to the customer, which is usually at the date when the goods are delivered to the customer, the customer has accepted the products and there is no unfulfilled obligations that could affect the customer's acceptance of the goods.

(e) Rental income

Rental income received under operating leases is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of lease. Contingent rentals are recognised income in the accounting period in which they are earned.

(f) Interest income

Interest income from a financial asset (other than a financial asset at fair value through profit or loss) 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)

Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

Leasing

The Group as lessee

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 periods 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.

Foreign currencies

The consolidated financial statements are presented in RMB which is the Group's presentation currency. RMB and Canadian Dollars ("CAD") are the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the exchange rates prevailing on 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 arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the reporting 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; 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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. RMB) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated 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 foreign currency translation 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 Company are reclassified to profit or loss.

In addition, 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 disposal 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 other comprehensive income.

Borrowing costs

Borrowing costs 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants (continued)

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

Retirement benefits to employees are provided through defined contribution plans.

The Group contributes to a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries.

The employees of the Group’s subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit and loss as they become payable in accordance with the rules of the central pension scheme.

The employees of the Group’s subsidiary which operates in Canada are required to pays fixed contributions into a separate entity. This subsidiary has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. This subsidiary has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group’s obligations under these plans are limited to the fixed percentage contributions payable.

Share-based payment arrangements

Equity-settled share-based payments to employees and other providing similar services are measured at fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangements (continued)

The fair value determined at the grant date of the equity-settled share-based payments is excepted on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

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 taxation' 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax (continued)

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.

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.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

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 recognised 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 commences when the assets are ready for their intended use and depreciates on the same basis as other property assets.

An item of property, plant 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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

The estimated useful lives for the current and comparative periods are as follows:

Buildings	10 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles	5 – 10 years
Tools	3 – 5 years

Depreciation methods, useful lives and residual values are reassessed at the end of each reporting period.

Investment property

Investment property is a building component held for long-term rental yields and is not occupied by the Group.

The investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses (if any). Depreciation is calculated using a straight-line method to allocate the depreciable amount over the estimated useful lives of 30 years.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Agricultural produce is included under inventories at its fair value less costs to sell at the point of lay, subsequently included under inventory and stated at the lower of cost and net realisable value.

Net realisable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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

Biological assets and agricultural produce

Biological assets are stated at fair value less costs to sell, with any resultant gain or loss recognised in the consolidated statement of profit or loss and other comprehensive income. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes.

Agricultural produce, which comprises broiler eggs, is initially measured at its fair value less costs to sell at the point of lay. Any resultant gain or loss recognised in consolidated statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Prepaid lease payments

Prepaid lease payments represent the purchase costs of land use rights and are amortised on a straight-line basis over the period of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses.

Provisions

Provisions are recognised when the Group has a present obligation (legal and 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. Where 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).

Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks.

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 fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into three of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") and loans and receivables. 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 market place.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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 on 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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

(a) it has been acquired principally for the purpose of selling it in the near term; or

(b) 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

(c) it is a derivative that is not designated and effective as a hedging instrument.

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 operating expenses' line item.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

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, deposits paid and other receivables, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where 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:

(a) significant financial difficulty of the issuer or counterparty; or

(b) default or delinquency in interest or principal payments; or

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

(d) the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are 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 71 – 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.

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

Classification as debt or equity

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.

Other financial liabilities

Financial liabilities (including trade payables, accruals, deposits received and other payables, bond, debenture and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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, 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.

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 derecognised and the consideration paid and payable is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties transactions

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

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

  (i) has control or join 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.

(b) An entity is related to the Group if any of the following conditions 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 the 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 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 entity.

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

  (vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives 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).

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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 recognised 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 in the notes to the consolidated financial statements. 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 events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

Individually material operating segments are not aggregate 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 of 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical judgements, apart from those involving estimations, that the Directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Impairment of property, plant and equipment and investment property

The Group reviews its property, plant and equipment and investment property for indications of impairment at the end of each reporting period. In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the end of the reporting period to ensure inventories are shown at the lower of cost and net realisable value.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Impairment of trade and other receivables

The Group makes impairment of trade and other receivables based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairment arises where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables and doubtful debt expenses in the reporting period in which such estimate has been changed.

(d) Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Income taxes

Determining income tax provisions involve judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Fair values of biological assets and agricultural produce

The fair value less costs to sell of breeders and Parent Stock Day-Old Chicks are determined using the income approach. The income approach focuses on the income-producing capability of the breeders. It assumes the value of breeders can be measured by the present worth of the net economic benefit to be received over the useful life of breeders. Discounted cash flow method had been used in the valuation. The value depends on the present worth of future economic benefits to be derived from the ownership of breeders. The value is calculated by discounting future cash flows generated from the asset to their present worth at a market-derived rate of return appropriate for the risks and hazards of investing in similar asset.

The fair value less costs to sell of chicken breeds is determined using the market approach. The market approach assumes sales of Parent Stock Day-Old Chicks and chicken breeds in their existing state and making reference to similar sales or offerings or listings of comparable assets on the market.

The independent qualified professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets and agricultural produce. Details of the assumptions used are disclosed in Note 24.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(g) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amounts of intangible assets at the end of the reporting period were approximately RMB418,445,000 (2015: RMB485,553,000) and no impairment loss was recognised during the year ended 31 December 2016 (2015: Nil).

(h) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amounts of goodwill at the end of the reporting period were approximately RMB190,093,000 (2015: RMB172,453,000) and no impairment loss was recognised during the year ended 31 December 2016 (2015: Nil).

(i) Revenue recognition on game publishing services

The Group recognises revenue from durable and consumable virtual items in game publishing rateably over the estimated average playing period of paying players for the applicable game. The determination of the estimated average playing period is made based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimate are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the estimated average playing period as a result of new information will be accounted for as a change in accounting estimate.

5. SEGMENT INFORMATION

During the year ended 31 December 2016, the Group operates in one operating segment which is the business of on-line game operation and retail game development. The segment of chicken meat, chicken breeds and animal feeds was discontinued during the year. A single management team reports to the Directors (being the chief operating decision-maker) who comprehensively manage the entire business. Accordingly, the Group does not present separately segment information.

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from continuing operation from external customers during the year and the Group's non-current assets. The geographical locations of the customers are determined based on the locations at which the goods were delivered.

The Group's non-current assets included property, plant and equipment, goodwill and intangible assets. The geographical location of property, plant and equipment is based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of operations to which these intangibles are allocated.

5. SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

Revenue from continuing operation from external customers

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
PRC	**111,881**	–
Canada	**744,002**	322,654
	855,883	322,654

Non-current assets

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Hong Kong	**32,536**	65,814
PRC	**144**	445,209
Canada	**626,198**	674,229
	658,878	1,185,252

Other information

Revenue from major products

The Group's revenue from continuing operation from its major products is as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Computer and video games	**855,883**	322,654

5. SEGMENT INFORMATION (CONTINUED)

Other information (continued)

Information about major customers

Four individual customers contributed over 10% of the total revenue of the Group from continuing operation during the year ended 31 December 2016 (2015: four).

Revenue from a major customer amounted to 10% or more of the Group's revenue from continuing operation is set out below:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Customer A	**243,152**	130,373
Customer B	**170,032**	55,796
Customer C	**157,126**	61,411
Customer D	**111,881**	–
Customer E	**–**	41,090

6. REVENUE

Continuing operation

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Computer and video games	**855,883**	322,654

7. OTHER REVENUE AND GAINS

Continuing operation

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Interest income on:		
Bank deposits	**404**	517
Other receivables	**5,584**	–
Total interest income	**5,988**	517
Government grants (Note)	**–**	243
Dividend income	**–**	257
Exchange gain	**1,168**	10,601
Compensation upon the termination from potential acquisition	**–**	12,417
Sundry income	**132**	51
	7,288	24,086

Note:

The Group receives government grant income from the Ministry of Economic Development, Trade and Employment ("MEDTE") in Canada. These government grants are accounted for as income in relation to the cost of assets capitalised in the consolidated statement of financial position.

8. FINANCE COSTS

Continuing operation

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Interest on:		
Debenture	**335**	304
Bond	**24,953**	–
Bank borrowings	**1,265**	173
	26,553	477

9. TAXATION

Continuing operation

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
PRC enterprise income tax		
– current year	**24**	–
Canadian corporate income tax		
– current year	**106,297**	39,038
Deferred tax (Note 16)		
– current year	**(42,427)**	(804)
Income tax expense	**63,894**	38,234

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Profit before taxation	**130,108**	36,297
National tax on loss before income tax calculated at rates applicable to profits in the countries concerned	**36,386**	16,527
Tax effect of the expense not deductible for tax purpose	**4,305**	83
Tax effect of income not taxable for tax purpose	**(187)**	(4,737)
Tax effect of unrecognised temporary difference	**(42,427)**	(804)
Tax effect of tax loss not recognised	**65,817**	27,165
	63,894	38,234

Notes:

(a) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI during the reporting period.

(b) No provision for Hong Kong profits tax has been made as the Group did not have assessable profits subject to Hong Kong profits tax during the reporting period (2015: Nil).

(c) Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Enterprise Income Tax ("EIT") at a tax rate of 25% for the years ended 31 December 2016 and 2015.

(d) Pursuant to the income tax rules and regulations of Canada, the companies comprising the Group in the Canada are liable to Canada Corporate Income Tax ("CIT") at a tax rate of 26.5% for the years ended 31 December 2016 and 2015.

No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of the retained profits as the Group determined that the retained profits as at 31 December 2016 would not be distributed in the foreseeable future.

10. DISCONTINUED OPERATIONS

On 30 September 2016, the Company has disposed of its entire interest in Sumpo International Holdings Limited and its subsidiaries (collectively referred to as the "Sumpo Group"). The operations of the Sumpo Group represented the business segments of chicken meats, chicken breeds and animal feeds of the Group and therefore the disposal of the business was treated as discontinued operations in these consolidated financial statements in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The comparative consolidated statement of profit or loss, profit before taxation stated in these consolidated financial statements and the relevant disclosure notes for profit or loss items are re-presented for discontinued operations in the current period.

Profit/(loss) from the discontinued operations were as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit/(loss) after taxation (Note (a))	**16,511**	(55,983)
Gain on disposal of subsidiaries (Note (d))	**10,411**	–
Profit/(loss) from discontinued operations	**26,922**	(55,983)

10. DISCONTINUED OPERATIONS (CONTINUED)

(a) Analysis of the results of discontinued operations is as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue	**940,485**	1,283,142
Cost of sales	**(840,763)**	(1,209,085)
Other revenue and gains	**9,793**	12,584
Change in fair value less costs to sell of biological assets	**4,034**	4,984
Net loss on financial assets at fair value through profit or loss	**(10,913)**	(4,118)
Fair value of agricultural produce on initial recognition	**109,356**	61,063
Reversal of fair value of agricultural produce due to hatch and disposals	**(103,089)**	(62,529)
Selling and distribution expenses	**(28,602)**	(37,098)
Administrative expenses	**(33,855)**	(65,819)
Finance cost	**(10,763)**	(16,830)
Other operating expenses	**(17,514)**	(18,982)
Profit/(loss) before taxation	**18,169**	(52,688)
Taxation	**(1,658)**	(3,295)
Profit/(loss) after taxation	**16,511**	(55,983)
Profit/(loss) attributable to:		
Owners of the Company	**15,330**	(54,280)
Non-controlling interests	**1,181**	(1,703)
	16,511	(55,983)
Basic and diluted		
Earnings/(loss) per share from discontinued operations (RMB cents per share)	**0.89**	(2.02)

10. DISCONTINUED OPERATIONS (CONTINUED)

(b) Profit/(loss) before taxation from discontinued operations is arrived at after (crediting)/charging the following:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
(Gain)/loss on disposal of property, plant and equipment	**(9)**	408
Staff cost	**16,991**	90,675
Depreciation of investment property (Note 18)	**26**	36
Amortisation of prepaid lease payment (Note 19)	**989**	1,319
Operating lease rental expenses	**847**	2,327
Depreciation of property, plant and equipment	**20,273**	27,407
Research and development costs	**4,709**	8,164

(c) Analysis of the cash flows of discontinued operations is as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash inflow/(outflow) from operating activities	**1,659**	(72,107)
Net cash inflow/(outflow) from investing activities	**4,240**	(60,538)
Net cash (outflow)/inflow from financing activities	**(9,187)**	38,398
	(3,288)	(94,247)

10. DISCONTINUED OPERATIONS (CONTINUED)

(d) Disposal of subsidiaries

Analysis of assets and liabilities over which control was lost

	At 31 December 2016 RMB'000
Net assets disposed of	
Property, plant and equipment	346,478
Investment properties	861
Prepaid leases payments	48,746
Prepayment for prepaid lease payment	24,989
Biological assets (Note 24)	25,959
Deferred tax assets (Note 16)	3,338
Inventories	107,897
Trade receivables	38,220
Prepayment and other receivables	275,186
Financial assets at fair value through profit or loss	25,034
Pledged bank deposits (Note (e))	5,677
Cash and cash equivalents (Note (e))	14,322
Trade payables	(60,151)
Accruals, deposits received and other payables	(93,152)
Bank borrowings	(265,813)
Amount due to the Group	(242,480)
Deferred revenue	(31,662)
Tax payables	(417)
	223,032
Gain on disposal of subsidiaries	
Net assets disposed of	(223,032)
Consideration	214,435
Cumulative exchange gain in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	4,798
Derecognition of non-controlling interest	14,210
	10,411

10. DISCONTINUED OPERATIONS (CONTINUED)

(e) Net cash inflow on disposal of subsidiaries

	For the year ended 31 December 2016 RMB'000
Analysis of net cash inflow in respect of the disposal of subsidiaries is as follows:	
Cash consideration received	214,435
Pledged bank deposits (Note (d))	(5,677)
Cash and cash equivalents disposed of (Note (d))	(14,322)
Total cash inflow from disposal of subsidiaries	194,436

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

Continuing operation

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000 (Restated)
Staff costs including Directors' remuneration	116,783	64,250
Equity-settled share-based payment expenses	12,824	22,982
Retirement schemes benefits	3,298	977
Total staff costs	132,905	88,209
Depreciation of property, plant and equipment	5,296	2,596
Amortisation of development expenditure (Note 22)	2,908	35,813
Amortisation of intangible assets (Note 21)	114,085	45,909
Total depreciation and amortisation	122,289	84,318
Auditors' remuneration		
– Audit service	1,544	1,604
– Other service	515	–
Operating lease rental expenses	10,095	3,731
Loss on disposal of property, plant and equipment	42	421

11. PROFIT BEFORE TAXATION (CONTINUED)

Net (loss)/gain on financial assets at fair value through profit or loss:

Continuing operation

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Proceeds on sales	**39,445**	137,768
Less: Cost of sales	**(59,526)**	(137,274)
Net realised (loss)/gain on financial assets at fair value through profit or loss	**(20,081)**	494
Unrealised loss on financial assets at fair value through profit or loss	**(5,634)**	(4,598)
Net loss on financial assets at fair value through profit and loss	**(25,715)**	(4,104)

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Directors' fees	**512**	276
Other emoluments:		
Salaries, allowances and benefits in kind	**6,527**	4,837
Discretionary bonus	**801**	–
Retirement schemes contributions	**60**	108
Equity-settled share-based payment expenses	**1,777**	5,718
	9,165	10,663
	9,677	10,939

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Details for the emoluments of each Director during the reporting period are as follows:

For the year ended 31 December 2016

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Executive Directors:						
Mr. Lin Qinglin *(Chairman)*	–	1,029	–	12	–	1,041
Mr. Wu Shiming	–	823	–	12	–	835
Mr. Law Kin Fat						
(Vice Chairman) (Note (d))	–	3,147	801	15	1,243	5,206
Mr. He Zhigang (Note (e))	–	383	–	6	534	923
Mr. Wong Ka Fai, Paul (Note (f))	–	809	–	15	–	824
Mr. Hsiao Shih-Jin (Note (g))	–	336	–	–	–	336
	–	6,527	801	60	1,777	9,165
Non-executive Director:						
Mr. Eric Todd (Note (i))	103	–	–	–	–	103
Independent Non-executive Directors:						
Mr. Hu Chung Ming	103	–	–	–	–	103
Mr. Chan Chi Yuen (Note (k))	103	–	–	–	–	103
Mr. Chau On Ta Yuen (Note (l))	35	–	–	–	–	35
Mr. Yang Chia Hung (Note (m))	168	–	–	–	–	168
	409	–	–	–	–	409
	512	6,527	801	60	1,777	9,677

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

For the year ended 31 December 2015

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Equity-settled share-based payment expenses RMB'000	Total RMB'000
Executive Directors:						
Mr. Lin Qinglin *(Chairman)*	–	882	–	13	–	895
Mr. Yeung Chun Wai, Anthony *(Vice Chairman)* (Note (a))	–	1,014	–	8	–	1,022
Mr. Wu Shiming	–	770	–	14	–	784
Mr. Yin Shouhong (Note (b))	–	442	–	47	–	489
Ms. Wai Ching Sum *(Finance Director)* (Note (c))	–	–	–	–	–	–
Mr. Law Kin Fat *(Vice Chairman)* (Note (d))	–	960	–	7	3,812	4,779
Mr. He Zhigang (Note (e))	–	449	–	10	1,906	2,365
Mr. Wong Ka Fai, Paul (Note (f))	–	274	–	7	–	281
Mr. Chen Domingo (Note (h))	–	46	–	2	–	48
	–	4,837	–	108	5,718	10,663
Non-executive Director:						
Mr. Eric Todd (Note (i))	42	–	–	–	–	42
Independent Non-executive Directors:						
Mr. Hu Chung Ming	68	–	–	–	–	68
Mr. Chau On Ta Yuen	68	–	–	–	–	68
Mr. Chan Fong Kong, Francis (Note (j))	56	–	–	–	–	56
Mr. Chan Chi Yuen (Note (k))	42	–	–	–	–	42
	234	–	–	–	–	234
	276	4,837	–	108	5,718	10,939

The chairman and chief executive officer's emoluments shown was mainly for his services in connection with the management of the affairs of the Group.

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Group.

The non-executive director's emoluments shown was mainly for his services as director of the Company.

The independent non-executive directors' emoluments shown was mainly for their service as directors of the Company.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Notes:

(a) Mr. Yeung Chun Wai, Anthony has been resigned as executive director and vice chairman of the board dated on 24 July 2015.

(b) Mr. Yin Shouhong has been resigned as executive director of the board dated on 9 July 2015.

(c) Ms. Wai Ching Sum has been resigned as executive director and finance director of the Company dated on 8 May 2015.

(d) Mr. Law Kin Fat has been appointed as executive director and vice chairman of the board dated on 25 July 2015.

(e) Mr. He Zhigang has been appointed as executive director of the Company dated on 9 July 2015 and resigned on 4 May 2016.

(f) Mr. Wong Ka Fai, Paul has been appointed as executive director of the Company dated on 9 July 2015 and resigned as executive director of the Company dated on 14 March 2017.

(g) Mr. Hsiao Shih-Jin has been appointed as executive director of the Company dated on 7 March 2016.

(h) Mr. Chen Domingo has been appointed been appointed as executive director of the Company dated on 8 May 2015 and resigned as executive director of the Company dated on 24 July 2015.

(i) Mr. Eric Todd has been appointed as non-executive director of the Company dated on 24 July 2015.

(j) Mr. Chan Fong Kong, Francis has been appointed as independent non-executive director of the Company dated on 1 January 2015 and resigned as independent non-executive director of the Company dated on 24 July 2015.

(k) Mr. Chan Chi Yuen has been appointed as independent non-executive director of the Company dated on 24 July 2015.

(l) Mr. Chau On Ta Yuen has resigned as an independent non-executive director dated on 4 May 2016.

(m) Mr. Yang Chia Hung has been appointed as an independent non-executive director of the Company dated on 7 March 2016.

The remuneration shown above represents remuneration received and receivable from the Group by these Directors in their capacity as employees to the Group and/or in their capacity as directors of the Company during the years ended 31 December 2015 and 2016 respectively. None of the Directors agreed to waive or waived any emoluments during the year (2015: Nil).

13. EMPLOYEES EMOLUMENTS

The five individuals whose emoluments were the highest in the Group for the year included one director (2015: two) with his emolument stated in Note 12 with the remaining four (2015: three) highest paid individuals whose emoluments are reflected in the analysis below:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**11,820**	2,080
Equity-settled share-based payment expenses	**1,243**	9,529
Retirement schemes contributions	**57**	16
	13,120	11,625

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

	For the year ended 31 December	
	2016	2015
HK$2,000,001 to HK$2,500,000	**2**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	2
HK$5,500,001 to HK$6,000,000	**1**	–

During the reporting period, no emoluments were paid by the Group to the Directors or any of 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 chief executive and Directors waived or agreed to waive any emoluments during the reporting period (2015: Nil).

The number of senior management (excluding Directors) whose emoluments fell within the following band is as follows:

	For the year ended 31 December	
	2016	2015
HK$2,000,001 to HK$2,500,000	**2**	1
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	2
HK$5,500,001 to HK$6,000,000	**1**	–

14. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 31 December 2016 (2015: Nil).

15. EARNINGS/(LOSS) PER SHARE

Continuing and discontinued operations

	For the year ended 31 December **2016** **RMB'000**	 2015 RMB'000 (Restated)
Earnings/(loss)		
Profit/(loss) attributable to owners of the Company for the purpose of calculating basic earnings/(loss) per share	**48,576**	(81,626)

	2016 **'000**	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**2,868,480**	2,683,142

Diluted earnings/(loss) per share for the years ended 31 December 2016 and 2015 was the same as the basic earnings per share. The effects of the Company's outstanding share option was anti-dilutive.

Continuing operation

	For the year ended 31 December **2016** **RMB'000**	 2015 RMB'000 (Restated)
Profit/(loss) attributable to owners of the Company for the purpose of calculating basic earnings/(loss) per share	**48,576**	(81,626)
(Less)/add: (Profit)/loss for the year from discontinued operations	**(25,741)**	54,280
Profit/(loss) for the purpose of basic earnings/(loss) per share from continuing operation	**22,835**	(27,346)

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

Diluted earnings/(loss) per share from continuing operation for the years ended 31 December 2016 and 2015 was the same as basic earnings/(loss) per share. The effects of the Company's outstanding share option was anti-dilutive.

15. EARNINGS/(LOSS) PER SHARE (CONTINUED)

Discontinued operations

For the year ended 31 December 2016, basic earnings per share for discontinued operations attributable to the owners of the Company is RMB0.89 cents per share (2015: basic loss per share of RMB2.02 cents per share), based on profit for the year of approximately RMB25,741,000 (2015: loss of approximately RMB54,820,000).

The denominators used are the same as those detailed above for both basic and diluted earnings/(loss) per share.

Diluted earnings/(loss) per share from discontinued operations for the years ended 31 December 2016 and 2015 was the same as basic earnings/(loss) per share. The effects of the Company's outstanding share option was anti-dilutive.

16. DEFERRED TAXATION

The followings are the major deferred tax balances recognised and movements thereon during the reporting period:

Deferred tax assets

	Property, plant and equipment RMB'000	Deferred revenue RMB'000	Total RMB'000
At 1 January 2015	–	3,824	3,824
Fair value adjustment from acquisition of subsidiaries (Note 38)	206	–	206
Charge to profit or loss (Note 9)	(206)	(463)	(669)
As at 31 December 2015 and 1 January 2016	–	3,361	3,361
Derecognised on disposal of subsidiaries (Note 10)	–	(3,338)	(3,338)
Charge to profit or loss	–	(23)	(23)
At 31 December 2016	**–**	**–**	**–**

Deferred tax liabilities

	Property, plant and equipment RMB'000	Intangible assets RMB'000	Total RMB'000
At 1 January 2015	–	–	–
Fair value adjustment from acquisition of subsidiaries (Note 38)	–	143,912	143,912
Credited to profit or loss (Note 9)	1,010	–	1,010
As at 31 December 2015 and 1 January 2016	1,010	143,912	144,922
Credited to profit or loss (Note 9)	402	(42,829)	(42,427)
Exchange alignment	114	9,805	9,919
At 31 December 2016	**1,526**	**110,888**	**112,414**

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Tools RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
As at 1 January 2015	265,153	177,547	15,242	6,156	30,207	494,305
Acquired through business combination	–	13,017	–	–	–	13,017
Additions	10,905	24,209	548	255	15,428	51,345
Disposals	–	(2,327)	(3,551)	–	–	(5,878)
Transfer	28,296	51	–	–	(28,347)	–
Exchange alignment	–	11,909	188	–	–	12,097
As at 31 December 2015 and 1 January 2016	304,354	224,406	12,427	6,411	17,288	564,886
Additions	349	5,530	1,563	75	1,762	9,279
Disposals	(564)	(420)	(1,598)	(58)	–	(2,640)
Derecognised on disposal of subsidiaries	(304,139)	(196,197)	(11,766)	(6,428)	(19,050)	(537,580)
Exchange alignment	–	3,441	44	–	–	3,485
As at 31 December 2016	**–**	**36,760**	**670**	**–**	**–**	**37,430**
Accumulated depreciation						
As at 1 January 2015	54,274	82,838	5,881	4,554	–	147,547
Provided for the year	10,620	17,228	1,702	453	–	30,003
Disposals	–	(1,879)	(561)	–	–	(2,440)
Exchange alignment	–	12,266	34	–	–	12,300
As at 31 December 2015 and 1 January 2016	64,894	110,453	7,056	5,007	–	187,410
Provided for the year	8,021	16,766	464	318	–	25,569
Eliminated on disposal of subsidiaries	(72,915)	(107,387)	(5,499)	(5,301)	–	(191,102)
Eliminated on disposal	–	(361)	(1,392)	(24)	–	(1,777)
Exchange alignment	–	2,009	41	–	–	2,050
As at 31 December 2016	**–**	**21,480**	**670**	**–**	**–**	**22,150**
Net book values						
As at 31 December 2016	**–**	**15,280**	**–**	**–**	**–**	**15,280**
As at 31 December 2015	239,460	113,953	5,371	1,404	17,288	377,476

Note:

As at 31 December 2016, no property, plant and equipment are pledged as collaterals for the Group's bank borrowings (2015: property, plant and equipment with net book amount of approximately RMB35,950,000 are pledged as collaterals for the Group's bank borrowings).

18. INVESTMENT PROPERTY

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost		
At the beginning of the year	**1,187**	1,187
Derecognised on disposal of subsidiaries	**(1,187)**	–
At the end of the year	**–**	1,187
Accumulated depreciation		
At the beginning of the year	**300**	264
Charge for the year (Note 10)	**26**	36
Eliminated on disposal of subsidiaries	**(326)**	–
At the end of the year	**–**	300
Net book values	**–**	887

The investment property is located in PRC, on land with land use right of 30 years.

The fair values of the investment property was approximately RMB3,600,000 at 31 December 2015. The fair values of the investment property of the Group at the end of the reporting periods has been arrived at on the basis of a valuation carried out at that date by Asset Appraisal Limited (the "Valuer") and have appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

19. PREPAID LEASE PAYMENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost		
At the beginning of the year	**58,429**	58,429
Derecognised on disposal of subsidiaries	**(58,429)**	–
At the end of the year	**–**	58,429
Accumulated amortisation		
At the beginning of the year	**8,694**	7,375
Charge for the year (Note 10)	**989**	1,319
Eliminated on disposal of subsidiaries	**(9,683)**	–
At the end of the year	**–**	8,694
Net book values	**–**	49,735
Analysed for reporting purposes as:		
Non-current assets	**–**	48,416
Current assets	**–**	1,319
	–	49,735

Prepaid lease payments represent the cost of land use rights in respect of certain leasehold land located in the PRC, which is held under long term leases.

As at 31 December 2015, the prepaid lease payments with net book amount of approximately RMB45,445,000, are pledged as collaterals for the Group's bank borrowings.

20. GOODWILL

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost		
At the beginning of the year	**172,453**	–
Additional amount recognised from business combination occurring during the year (Note 38)	**–**	176,806
Exchange alignments	**17,640**	(4,353)
At the end of the year	**190,093**	172,453
Accumulated impairment loss		
At the beginning of the year	**–**	–
Impairment loss recognised during the year	**–**	–
At the end of the year	**–**	–
Carrying amount at the end of year	**190,093**	172,453

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the following cash-generating units.

- **Digital Extremes Inc. ("Digital Extremes") – Computer and video games CGU business**

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

Before recognition of impairment losses, the carrying amount of goodwill was allocated to CGU as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Computer and video games CGU	**190,093**	172,453

Note:

Computer and video games CGU

The recoverable amount of the CGU is determined by reference to the value in use calculation, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the pre-tax discount rate of approximately 22% (2015: 24%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5-year period have been extrapolated using 3% (2015: 3%) growth rate per annum. The Directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

20. GOODWILL (CONTINUED)

Allocation of goodwill to cash-generating units (continued)

Computer and video games CGU (continued)

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 3% (2015: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the Directors' plans for focusing operations in these markets. The Directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margin achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

21. INTANGIBLE ASSETS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cost		
At the beginning of the year	**529,694**	–
Acquisition through business combinations (Note 38)	**–**	543,065
Exchange alignment	**54,183**	(13,371)
At the end of the year	**583,877**	529,694
Accumulated amortisation		
At the beginning of the year	**44,141**	–
Charge for the year (Note 11)	**114,085**	45,909
Exchange alignment	**7,206**	(1,768)
At the end of the year	**165,432**	44,141
Net book values	**418,445**	485,553

The economic useful life of recognised intangible assets are as follows:

Intangible assets	**Useful economic life**
Game engine	5 years
Completed game	5 years
Game under development	5 years

21. INTANGIBLE ASSETS (CONTINUED)

Note:

Cost of intangible assets:

	2016	2015
	RMB'000	RMB'000
Game engine	**80,296**	72,844
Completed game	**440,596**	399,710
Game under development	**62,985**	57,140
Total	**583,877**	529,694

22. DEVELOPMENT EXPENDITURE

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**2,700**	–
Acquisition through business combinations (Note 38)	**–**	26,116
Addition	**4,220**	13,149
Amortisation and impairment (Note 11)	**(2,908)**	(35,813)
Exchange alignment	**307**	(752)
At the end of the year	**4,319**	2,700

As at 31 December 2016, the development expenditures represent prepayments to Nine Realms Inc., an independent third party, for video game development and publishing services. Digital Extremes entered into a written agreement in September 2016 to provide Nine Realms Inc. with advance payments for development of a video game on PC platforms in exchange for exclusive publishing rights to the game.

As at 31 December 2015, the development expenditures represent prepayments to N-Space Inc., an independent third party, for video game development and publishing services. Digital Extremes entered into a written agreement in December 2015 to provide N-Space Inc. with advance payments for development of a video game on both PC and Console platforms in exchange for exclusive publishing rights to the game. The amount was fully amortised and impaired during the year ended 31 December 2016.

23. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Frozen meats	**–**	89,656
Animal feeds	**–**	2,243
Processed foods	**–**	278
Agricultural produce	**–**	7,007
Raw materials (Note)	**–**	17,533
Wine	**–**	43
Merchandise goods	**1,885**	70,527
Consumables	**–**	626
Packaging	**–**	702
	1,885	188,615

Note:

Included in the raw materials were mainly raw materials for the production of animal feeds, such as corn, wheat, soya meal and additives.

The analysis of the amount of inventories recognised as an expense is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**1,046,454**	981,212
Fair value of agricultural produce on initial recognition	**(109,356)**	(61,063)
Reversal of fair value of agricultural produce due to hatch and disposals	**103,089**	62,529
	1,040,187	982,678

The Group is exposed to a number of risks related to biological assets and agricultural produce. In addition to the financial risk disclosed in Note 41, the Group is exposed to the following operation risks:

(a) Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

23. INVENTORIES (CONTINUED)

(b) Climate, disease and other natural risks

The Group's biological assets and agricultural produce are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including but not limited to regular inspections, disease controls, surveys and insurance.

Principal assumptions for valuation of agricultural produce

The following principal assumptions have been adopted by the Valuer:

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

(e) the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

(f) the availability of finance will not be a constraint on the breeding of the breeders;

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

(i) the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

23. INVENTORIES (CONTINUED)

The qualification of the Valuer

The Group's agricultural produce were independently valued by the Valuer. The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. The professional valuers of the Valuer participated in this valuation include professional member of the Royal Institution of Chartered Surveyors (the "MRICS"), professional member of the Hong Kong Institute of Surveyors (the "MHKIS"), professional member of the China Institute of Real Estate Appraisal (the "CIREA"), charterholder of the Chartered Financial Analyst Institute (the "CFA") and member of the Global Association of Risk Professional (the "FRM") and have appraisal experiences in different kinds of assets such as property assets, industrial assets, biological assets, mining rights and assets, technological assets and financial assets in the PRC, Hong Kong, Singapore and Thailand. They have previously participated in the valuation of biological assets and agricultural produce such as hogs, chickens, sophora alopecuroides crops, sunflower seeds and tapioca chips.

Among the professional institutions mentioned above, the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors are member organisations of the International Valuation Standards Council (the "IVSC") which encourages their respective members to adopt and use the International Valuation Standards (including relevant standards on Biological Asset Valuation) laid down by the IVSC.

Based on the above qualification and various experiences of the Valuer and/or its members in providing biological asset valuation services to various companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and other stock exchanges in the United States, which engage in the business of husbandry and agriculture industry, the Directors are of the view that the Valuer is competent to determine the fair value of the Group's biological assets.

Physical count of agricultural produce

The Group currently has two hatching facilities. After the mature breeders grown from parent stock day-old chicks lay the broiler eggs, the Group collect and deliver the same to the hatching facilities. The Group select those broiler eggs that can satisfy the quality requirements. Broiler eggs are incubated in machines and the Group carefully monitor and maintain the optimum temperature and humidity throughout the entire hatching process. It generally takes approximately 21 days for broiler eggs to be hatched. Hatched chicken breeds are inspected, selected, vaccinated and then delivered to either the Group's broiler breeding farms or the contract farmers.

The following steps have been taken for undertaking the physical counting by the Valuer:

- to obtain the housekeeper records in relation to the number of broiler eggs in the hatching facilities as at the relevant reporting date and the counting date;
- to obtain the housekeeper records in relation to the daily movement on the number of broiler eggs in the hatching facilities between the relevant reporting date and the counting date;
- to count the number of broiler eggs in the hatching facilities; and
- to work out the number of broiler eggs as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

23. INVENTORIES (CONTINUED)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of agricultural produce:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2015

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Agricultural produce				
Broiler eggs	–	7,007	–	7,007

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Broiler eggs	Level 2	The fair value of broiler eggs is determined by using the market approach with reference to market-determined prices.	• Average market prices broiler eggs: RMB1.35 per egg in 2015

Selling price of broiler eggs sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in selling price of broiler eggs, with all other variables held constant, of the Group's profit before taxation (through the impact on changes in selling price of broiler eggs).

	Increase/(decrease) in profit before taxation For the year ended 31 December	
	2016 **RMB'000**	2015 RMB'000
Increase of selling price of 5%	–	151
Decrease of selling price of 5%	–	(151)

24. BIOLOGICAL ASSETS

Movements of the biological assets are summarised as follows:

	Parent Stock Day-Old Chicks and immature breeders RMB'000	Mature breeders RMB'000	Chicken breeds RMB'000	Total RMB'000
As at 1 January 2015	–	5,432	9,396	14,828
Increase due to purchases	3,126	–	–	3,126
Increase due to raising (feeding cost and others)	4,772	–	113,319	118,091
Transfer	(2,418)	2,418	–	–
Decrease due to retirement and deaths	–	(6,976)	–	(6,976)
Decrease due to sales	–	–	(113,038)	(113,038)
Change in fair value less costs to sell	(1,541)	700	5,825	4,984
As at 31 December 2015 and 1 January 2016	3,939	1,574	15,502	21,015
Increase due to purchases	1,536	–	–	1,536
Increase due to raising (feeding cost and others)	7,964	–	50,747	58,711
Transfer	(14,222)	14,222	–	–
Decrease due to retirement and deaths	–	(7,898)	–	(7,898)
Decrease due to sales	–	–	(51,439)	(51,439)
Change in fair value less costs to sell	4,888	2,935	(3,789)	4,034
Derecognised upon disposal of subsidiaries (Note 10)	(4,105)	(10,833)	(11,021)	(25,959)
As at 31 December 2016	**–**	**–**	**–**	**–**

24. BIOLOGICAL ASSETS (CONTINUED)

The numbers of biological assets are summarised as follows:

	As at 31 December	
	2016	2015
	'000	'000
Parent Stock Day-Old Chicks and immature breeders	**–**	112
Mature breeders	**–**	35
Chicken breeds	**–**	779
At the end of the year	**–**	926

Analysed for reporting purposes as:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current assets	**–**	5,513
Current assets	**–**	15,502
At the end of the year	**–**	21,015

The Group is exposed to a number of risks related to biological assets. In addition to the financial risk disclosed in Note 41, the Group is exposed to the certain operation risks which are similar to agricultural produce. Please refer to Note 23 for details.

24. BIOLOGICAL ASSETS (CONTINUED)

Principal assumptions for valuation of biological assets

The following principal assumptions have been adopted by the Valuer:

(a) there will be no major change in the existing political, legal and economic conditions in the PRC;

(b) save for those proposed changes on taxation policies announced by the Tax Bureau of the PRC, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Group;

(c) the interest rates and exchange rates will not differ materially from those presently prevailing;

(d) the breeders are free from any animal diseases, including but not limiting to avian influenza such that they are all healthy and are capable to generate valuable outputs in line with normal expectations and subject to normal operating expenses;

(e) the life cycle, natural mortality rates and infertility rates of that particular breed of breeders as given by the Group are fair and reasonable and egg laying pattern of that particular breed of breeders is not materially different from that as shown in the Arbor Acres Plus (AA+) Parent Stock Performance Objectives as published by Aviagen Group which is the developer of AA+ branded chicken;

(f) the availability of finance will not be a constraint on the breeding of the breeders;

(g) the production facilities, systems and the technology utilised by the Group in carrying out its breeding operations do not infringe any relevant regulations and law;

(h) the Group has obtained or shall have no impediment to obtain all necessary governmental permits and approvals to carry out its breeding operations in the PRC;

(i) the breeders are not subject to any liabilities, interest-bearing loans and encumbrances that would impair their fair value as at the relevant valuation date;

(j) the Group will secure and retain competent management, key personnel, marketing and technical staff to carry out and support its breeding operations; and

(k) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the fair value of the breeders.

The qualification of the Valuer

The Group's biological assets were independently valued by the Valuer. The Valuer and its professional valuers in charge of this valuation have appropriate qualifications and relevant experiences in various appraisal assignments involving biological assets and agricultural produce. Please refer to Note 23 for details.

24. BIOLOGICAL ASSETS (CONTINUED)

Physical count of biological assets

The Group currently has three breeder farms and five broiler breeding farms on which various sheds are erected. Parent Stock Day Old Chicks and chicken breeds are moved into a shed at the same time such that all chickens within a shed would be in the same stage of life cycle. For administration purposes, the housekeeper of the shed would keep proper records on the number of chickens moved into the shed and also the number of chicken remaining alive inside the shed every day throughout the breeding period. After the breeding period, the shed would be vacated by moving out all the chickens for sale or for slaughtering. Cages of prescribed dimensions that can contain a certain number of mature breeders or broilers are used for carrying the chickens from the sheds to the prescribed destinations.

The following steps have been taken for undertaking the physical counting by the Valuer:

- to confirm with the management the time when the chickens are mature enough for moving out from the sheds for sale or for slaughtering;
- to obtain the housekeeper records in relation to the number of chickens in the sheds by the time when they are moved out from the sheds;
- to obtain the housekeeper records in relation to the daily reduction on the number of chickens within the sheds between the relevant reporting date and the date when they are moved out;
- to count the number of cages containing the chickens at the entrance of the sheds when they are moved out from the sheds; and
- to work out the number of chicken breeds/broilers or breeders as at the relevant reporting date by rolling back the counted number from the counting date to the relevant reporting date using the warehouse records as mentioned above.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of biological assets:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

24. BIOLOGICAL ASSETS (CONTINUED)

Fair value hierarchy (continued)

As at 31 December 2015

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Biological assets				
Parent Stock Day-Old Chicks and immature breeders	–	–	3,939	3,939
Mature breeders	–	–	1,574	1,574
Chicken breeds	–	15,502	–	15,502
Total biological assets	–	15,502	5,513	21,015

Type	Fair value hierarchy	Valuation technique and key input	Significant unobservable inputs
Biological assets			
Parent stock day- old chicks and immature breeders and mature breeders	Level 3	The fair value less costs to sell of parent stock day-old chicks and immature breeders and mature breeders are determined by using the income approach based on present value of expected net profit discounted at market determined discounted rate.	• The discount rate in the discounted cash flow adopted model is 15.29%, which has been developed by the capital asset pricing model. The selling price of broiler eggs adopted in the discounted cash flow is RMB1.35 per egg. The production costs adopted in the discounted cash flow is RMB244 per head.
Chicken breeds	Level 2	The fair value of chicken breeds is determined by using the market approach with reference to market determined prices.	• Average market prices of chicken breeds: RMB8.84 per chicken.

24. BIOLOGICAL ASSETS (CONTINUED)

Sensitivity analysis

Discount rate sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in discount rate, with all other variables held constant, of the Group's loss before taxation (through the impact on changes in discount rate).

	Increase/(decrease) in loss before taxation	
	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Increase of discount rate of 5%	–	(24)
Decrease of discount rate of 5%	–	24

Selling price of broiler eggs sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in selling price of broiler eggs, with all other variables held constant, of the Group's loss before taxation (through the impact on changes in selling price of broiler eggs).

	Increase/(decrease) in loss before taxation	
	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Increase of selling price of 5%	–	906
Decrease of selling price of 5%	–	(906)

24. BIOLOGICAL ASSETS (CONTINUED)

Sensitivity analysis (continued)

Production costs sensitivity analysis for parent stock day-old chicks and immature breeders and mature breeders

The following table demonstrates the sensitivity to a reasonably possible change in production costs, with all other variables held constant, of the Group's loss before taxation (through the impact on changes in production costs).

	Increase/(decrease) in loss before taxation	
	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Increase of production costs of 5%	–	(755)
Decrease of production costs of 5%	–	755

Selling price sensitivity analysis for chicken breeds

The following table demonstrates the sensitivity to a reasonably possible change in selling price, with all other variables held constant, of the Group's loss before taxation (through the impact on changes in selling price).

	Increase/(decrease) in loss before taxation	
	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Increase of selling price of 5%	–	775
Decrease of selling price of 5%	–	(775)

25. TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables	**95,343**	114,549
Less: Impairment loss recognised	**–**	(408)
	95,343	114,141

The Group normally allows a credit period ranging from 7 to 70 days. The ageing analysis of trade receivables is based on invoice date, net of impairment is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 30 days	**84,555**	102,724
31 days to 70 days	**10,519**	4,207
71 days to 180 days	**249**	7,210
Over 180 days	**20**	–
	95,343	114,141

Certain trade receivables that are past due are not considered impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Overdue by:		
1 day to 110 days	**249**	7,210
Over 110 days	**20**	–
	269	7,210

25. TRADE RECEIVABLES (CONTINUED)

At the end of the reporting period, no trade receivables (2015: RMB408,000) was impaired. These receivables mainly relate to wholesales in unexpected difficult economic situations. The ageing of these receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Over 180 days	**–**	408

Movements of impairment loss recognised on trade receivables:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**408**	408
Derecognised on disposal of subsidiaries	**(408)**	–
At the end of the year	**–**	408

The creation and release of provision for impairment of trade receivables have been included in administrative expenses. Amounts charged to the allowance account are written off when there is no expectation of recovering additional cash.

The trade receivables are denominated in RMB and CAD.

There is no concentration of credit risk with respect to trade receivable as the Group has a large number of customers.

26. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deposits paid, prepayments and other receivables	**419,261**	207,199
Less: Impairment loss recognised	**–**	(3,106)
	419,261	204,093

Deposits paid, prepayments and other receivables

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Advances to staff	**–**	716
Deposits paid and prepayments	**36,813**	11,105
Deposits paid and prepayments for purchase of property, plant and equipment	**–**	5,685
Deposits paid and prepayments to suppliers (Note (a))	**–**	131,584
Government grant receivables	**–**	500
Other receivables (Note (b))	**382,402**	13,740
VAT recoverable (Note (c))	**46**	43,869
	419,261	207,199
Less: Impairment loss recognised	**–**	(3,106)
	419,261	204,093

Notes:

(a) The amount was mainly related to amounts paid to, against other, raw materials suppliers to secure a stable supply of raw material as requested by such suppliers.

(b) As at 31 December 2016, the amount was mainly related to amount due from the Sumpo Group. The Group will be entitled to an interest of 10% per annum on the outstanding amount.

(c) As at 31 December 2015 and 2016, the VAT recoverable was mainly for purchase of raw materials, machinery and equipment during the year.

26. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

Movements of impairment loss recognised on deposits paid, prepayments and other receivables are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
At the beginning of the year	**3,106**	3,111
Reversal of impairment loss recognised	**–**	(5)
Derecognised on disposal of subsidiaries	**(3,106)**	–
At the end of the year	**–**	3,106

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Held for trading:		
– Listed equity securities in Hong Kong ("HK") (Note (a))	**249,236**	150,316
– Unlisted equity securities in the PRC	**–**	35,947
	249,236	186,263

Notes:

(a) Fair value is determined with reference to quoted market bid prices.

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Listed securities:		
– listed equity securities in HK	**30,741**	63,562

28. AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Analysis for reporting purposes as:		
Non-current assets	**30,741**	63,562

The following is a list of available-for-sale financial assets as at 31 December 2016 and 2015:

Name of equity	Proportion share capital owned as at 31 December 2016 %	2015 %	Cost of investment RMB'000	Fair value as at 31 December 2016 RMB'000	Fair value as at 31 December 2015 RMB'000
Equity securities issued by:					
– Yue Xiu Great China					
Fixed Income Fund VI LP (Note (a))	33.2	33.2	44,792	30,741	33,676
– KKC Capital SPC					
KKC Capital High Growth Fund					
Segregated Portfolio (Note (b))	–	10.0	41,870	–	29,886

Note:

(a) Yue Xiu Great China Fixed Income Fund VI LP ("Yue Xiu") is an unlisted fund registered in the Cayman Islands and managed by Yue Xiu Investment Management Limited, which is an indirectly wholly-owned subsidiary of Yue Xiu Securities Holdings Limited, which is in turn an indirect wholly-owned subsidiary of Guangzhou Yuexiu Holdings Limited, a state-owned enterprise in the PRC.

(b) KKC Capital SPC ("KCC Fund") is an exempted segregated portfolio company that was incorporated with limited liability under the Companies Law of the Cayman Islands.

(c) During the year, the net loss in respect of the Group's available-for-sale financial assets recognised in other comprehensive income amounted to approximately RMB7,744,000 (2015: RMB17,558,000), of which approximately RMB7,744,000 (2015: RMB17,558,000) was reclassified from other comprehensive income to profit or loss for the year.

There was a significant decline in the market value of Yue Xiu and KKC Fund during the year. The Directors consider that such a decline indicates that the investment in Yue Xiu and KKC Fund has been impaired and an impairment loss of approximately RMB7,744,000 (2015: RMB17,558,000), which included a reclassification from other comprehensive income of approximately RMB7,744,000 (2015: RMB17,558,000), has been recognised in profit or loss for the year.

29. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash and bank balances	**91,044**	130,583
Pledged bank deposits	**–**	14,390
	91,044	144,973

Cash and bank balance comprise:

Cash and bank balances comprise cash held by the Group during the year (2015: cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and carry interest at the prevailing market rates which at 0.35% to 0.75% per annum). The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances at the end of the reporting period were amounts in RMB of approximately RMB507,000 (2015: RMB54,668,000) which are not freely convertible into other currencies.

30. TRADE PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade payables	**1,871**	68,809

The ageing analysis of trade payables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 30 days	**1,370**	60,844
31 to 90 days	**496**	6,583
91 to 180 days	**–**	640
Over 180 days	**5**	742
	1,871	68,809

The average credit period on purchases of certain goods is generally within 15 days to 90 days.

31. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deposits received	**–**	18,616
Accruals and other payables	**53,100**	82,661
	53,100	101,277

32. BANK BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank borrowings – secured	**–**	208,000
Loan from other bank facilities	**–**	67,000
Total bank borrowings	**–**	275,000

Carrying amount repayable:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
On demand or within one year	**–**	275,000
Over five years	**–**	–
Total bank borrowings	**–**	275,000
Less: Amounts due within one year shown under current liabilities	**–**	(275,000)
	–	–

Bank borrowings at:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
– Floating interest rate	**–**	275,000

As at 31 December 2015, the carrying amount of the Group's bank borrowings are all originally denominated in RMB, which is the functional currency of the Group and the carrying amount are approximately to their fair values.

32. BANK BORROWINGS (CONTINUED)

The contractual fixed and floating interest rates per annum in respect of bank borrowings were within the following ranges:

	As at 31 December	
	2016	2015
Bank borrowings	**–**	4.6%-6.7%

During the reporting period of 2015, the Group's bank borrowings were secured by:

(a) the Group's property, plant and equipment with a carrying amount of approximately RMB35,950,000.

(b) the Group's prepaid lease payments with a carrying amount of approximately RMB45,445,000.

(c) the Group's bank deposits amounted to approximately RMB14,390,000.

(d) The Group was pledged 0.56% of the paid up capital of Xiamen Bank to secure bank borrowings with amount of approximately RMB25,000,000 as at 31 December 2015.

33. DEFERRED REVENUE

	2016	2015
	RMB'000	RMB'000
Arising from government grant (Note (a))	**–**	33,085
Arising from sale of virtual currency (Note (b))	**23,596**	18,390
	23,596	51,475

Analysed for reporting purposes as:

	2016	2015
	RMB'000	RMB'000
Non-current liabilities	**–**	33,085
Current liabilities	**23,596**	18,390
	23,596	51,475

33. DEFERRED REVENUE (CONTINUED)

Notes:

(a) As at 31 December 2015, the Group has unused government grants in relation to the construction of qualifying assets of approximately RMB13,826,000 of which will be recognised upon construction of qualifying assets; and the government compensation in relation to dismantle of qualifying assets of approximately RMB19,205,000. The aforementioned government grants and government compensation are not repayable.

(b) As at 31 December 2015 and 2016, deferred revenue comprised receipt from sale of virtual currency through their online game that is being recognised through profit and loss over the average estimated paying player life.

34. BOND

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Unlisted corporate bond	**291,308**	–
Carrying amount repayable:		
On demand or within one year	**145,523**	–
More than one year, but not exceeding two years	**145,785**	–
	291,308	–
Less: Amounts due within one year shown under current liabilities	**(145,523)**	–
	145,785	–

On 6 May 2016, the Company had issued a fixed coupon redeemable bond at principal amount of approximately RMB291,484,000 (equivalent to approximately USD42,000,000) which was guaranteed by Multi Dynamic Games Group Inc. ("Multi Dynamic Games"), a subsidiary of the Group, and was secured by 97% shares of Digital Extremes. The bond bears an interest rate of 7.0% per annum and an additional interest rate of 6.5% per annum. The effective interest rate of the bond is approximately 13.7%.

35. DEBENTURE

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Unsecured debenture at 5%	**3,835**	3,467

On 20 January 2014, the Group had issued debenture amount of approximately RMB3,943,000 (equivalent to HK$5,000,000) to an independent third party.

The debenture bears an interest of 5% per annum, unsecured and repayable on 19 January 2021. The effective interest rate of the debenture is approximately 9.4%.

36. SHARE OPTION SCHEME

The share option scheme adopted by the Company (the "Share Option Scheme") on 17 December 2010.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of the Participants and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

The participants of the Share Option Scheme to whom options may be granted by the Board shall include and employee, consultant, advisor, agent, contractor, client or supplier who in the sole discretion of the Board has contributed or is expected to contribute to the Group.

During the period commencing one month immediately preceding the earlier of (a) the date of the board meeting for approval of the Company's interim or annual results or (b) the failure of the Company to publish its interim or the annual results announcement under the Listing Rules and ending on the date of the results announcement, no option should be granted.

The subscription price per Share shall be rounded upwards to the nearest whole cent. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion at the time of the grant of the relevant option and notified to each grantee but in any case will not be less than the higher of (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; or (2) 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.

The total number of the Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of Shares in issue.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of Shares in issue from time to time.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carrying neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

36. SHARE OPTION SCHEME (CONTINUED)

The following share-based payment arrangements were in existence during the current year:

				Number of share options				
Category of grantee	**Exercise price per share option** HK$	**Date of grant**	**Exercisable period**	**As at 1 January 2016** ('000)	**Granted during the year** ('000)	**Exercised during the year** ('000)	**Lapsed during the year** ('000)	**As at 31 December 2016** ('000)
Executive director	1.20	25 July 2015	25 January 2016 to 25 July 2025	21,600	–	–	7,200	14,400
Employees	1.20	25 July 2015	25 January 2016 to 25 July 2025	36,000	–	–	21,600	14,400
Consultants	1.20	25 July 2015	25 January 2016 to 25 July 2025	100,800	–	–	–	100,800

Notes:

(a) The share options were vested upon granted.

(b) The exercise price of the share options was subject to adjustments in the case of capitalisation of profits or reserve, rights or bonus issues, consolidation, subdivision or reduction of the share capital or other changes in the capital structure of the Company.

During the year ended 31 December 2016, the Company did not grant any share options (2015: granted 158,400,000 share options under the Share Option Scheme on 25 July 2015) under the Share Option Scheme. The fair value of the options determined at the date of grant using the Binomial option pricing model was approximately RMB64,897,000.

Fair value of share options granted during the year ended 31 December 2015

The weighted average of fair value of the share options granted during the financial year ended 31 December 2015 is HK$0.51. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

Input into the model	**Start from 25 January 2016**	**Start from 25 July 2015**
Grant date share price (HK$)	1.07	1.07
Exercise price (HK$)	1.20	1.20
Expected volatility	63.79%	63.79%
Option life	10 years	10 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.16%	2.16%

36. SHARE OPTION SCHEME (CONTINUED)

Movements in share options during the year

The following reconciles the share options outstanding at the beginning and end of the year:

	2016		2015	
	Number of options ’000	**Weighted average exercise price HK$**	Number of options ’000	Weighted average exercise price HK$
Balance at beginning of year	**158,400**	**1.20**	–	–
Granted during the year	**–**	**–**	158,400	1.20
Lapsed during the year	**(28,800)**	**1.20**	–	–
Balance at end of year	**129,600**	**0.98**	158,400	1.20

All outstanding options are exercisable at the end of the respective reporting period.

Share options exercised during the year

None of the share options exercised during the year.

Share options outstanding at the end of the year

The share options outstanding at the end of the year had a weighted average exercise price of HK$0.98, and a weighted average remaining contractual life of 8.57 years.

37. SHARE CAPITAL

	Number of shares	Nominal value of ordinary shares	
		HK$'000	RMB'000
Authorised:			
As at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016 ordinary shares of HK$0.1 each	4,000,000,000	400,000	320,000
Issued and fully paid:			
As at 1 January 2015 ordinary shares of HK$0.1 each	1,992,000,000	199,199	167,392
Issue of shares by placing (Note (a) and (b))	876,480,000	87,648	69,214
Balance as at 31 December 2015, 1 January 2016 and 31 December 2016	**2,868,480,000**	**286,847**	**236,606**

Notes:

(a) On 2 February 2015, the Company placed and issued 398,400,000 new ordinary shares under placing and at the placing price of HK$1 per share. The net proceeds of approximately HK$388.4 million was utilised by the Group as its general working capital.

(b) On 24 April 2015, the Company placed and issued 478,080,000 new ordinary shares under placing and at the placing price of HK$1.2 per share. The net proceeds of approximately HK$559.2 million was utilised by the Group as its general working capital.

38. ACQUISITION OF SUBSIDIARIES

Digital Extremes

On 14 October 2014, Multi Dynamic Games has entered into an agreement to acquire 58% equity interest in Digital Extremes at a total consideration of approximately RMB432,748,000 (equivalent to US$69,600,000). The acquisition has been completed on 21 July 2015. The aggregate consideration of approximately RMB432,748,000 has been settled by cash.

No acquisition-related costs have been included from the cost of acquisition and recognised as expense in the year and included in the administrative expenses.

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Digital Extremes (continued)

The net assets acquired in the transaction and the goodwill arising therefrom, are as follow:

	Fair value recognised on acquisition RMB'000
Net assets acquired:	
Property, plant and equipment	13,017
Intangible assets (Note 21)	543,065
Development expenditure (Note 22)	26,116
Deferred tax assets (Note 16)	206
Inventories	840
Trade and other receivables	57,679
Amount due from shareholders	11
Tax recoverable	72,079
Cash and cash equivalents	74,295
Trade and other payables	(105,220)
Accruals and other payables	(23,909)
Tax payable	(72,986)
Deferred tax liabilities (Note 16)	(143,912)
	441,281
Non-controlling interests	(185,339)
Goodwill arising on acquisition (Note 20)	176,806
Total consideration	432,748
Satisfied by:	
Cash	432,748
Net cash outflow arising on acquisition:	
Consideration paid in cash	(432,748)
Less: Cash and cash equivalents acquired	74,295
	(358,453)

Acquisition–related costs of approximately RMB7,683,000 have been charged to administrative expenses in the consolidated statement of profit or loss during the year ended 31 December 2015.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

38. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Impact of acquisition on the results of the Group

Had the acquisition of Digital Extremes been effected at 21 July 2015, the Group's revenue for the year ended 31 December 2015 would have been RMB1,605,796,000 and the consolidated loss for the year would have been RMB57,920,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed at 21 July 2015, nor is it intended to be a projection of future results.

In determining the pro forma revenue and profit of the Group assuming that Digital Extremes had been acquire at the end of the year 2015, the Directors have calculated depreciation of property, plant and equipment and amortisation of intangible assets on the basis of the fair values arising in the initial accounting for the business rather than the carrying amounts recognised in the pre-acquisition financial statements.

Acquisition of additional interest of Digital Extremes

On 20 May 2016, the Group acquired additional 39% equity interest in Digital Extremes from the non-controlling interests of Digital Extremes at a cash consideration of US$63,000,000 (equivalent to approximately RMB411,430,000) and distributable profits shortfall of US$2,028,688 (equivalent to approximately RMB13,249,000). The Group recognised as increase in exchange reserve at approximately RMB21,572,000 and a corresponding decrease in other reserve and non-controlling interests at approximately RMB276,307,000 and RMB169,944,000 respectively.

Immediately after the acquisition, the Company increased its effective beneficial interests in Digital Extremes from 58% to 97%.

Details of the transaction was set out in the Company's announcement dated 22 May 2016.

39. RETIREMENT BENEFIT PLANS

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the"MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2015: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2015: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

The employees of the Group's subsidiaries operate in the PRC are members of state-sponsored pension schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of the payroll of their staff to the pension schemes to fund the benefits. The only obligations of the Group with respect to the pension schemes is to make the required contributions.

The employees of the Group's subsidiaries which operate in Canada are required to pays fixed contributions into a separate entity. The subsidiaries have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The subsidiaries have no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss in related to the continuing operation of approximately RMB3,298,000 (2015: RMB977,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting period.

The capital structure of the Group consists of bank borrowings, debenture, bond and equity attributable to owners of the Company (comprising issued share capital, share premium, reserves and retained earnings).

The Directors review the capital structure regularly. As part of this review, the Directors consider the cost and the risks associates with each class of the capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as raising and repayment of bank borrowings.

The Group monitors capital on the basis of gearing ratio. This ratio is calculated by dividing the total borrowings with total assets. The Group's overall strategy remains unchanged during the reporting period. The gearing ratio at the end of each reporting periods were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total borrowings	**295,143**	278,467
Total assets	**1,522,782**	2,040,158
Gearing ratio (%)	**19%**	14%

41. FINANCIAL INSTRUMENTS AND FAIR VALUES

(a) Categories of financial instruments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Financial assets		
Financial assets at fair value through profit of loss		
– Held for trading	**249,236**	186,263
Available-for-sale financial assets	**30,741**	63,562
Loans and receivables (including cash and bank balances)		
– Trade receivables	**95,343**	114,141
– Deposits paid and other receivables	**382,402**	14,456
– Pledged bank deposits	**–**	14,390
– Cash and bank balances	**91,044**	130,583

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Financial liabilities		
Amortised cost		
– Trade payables	**1,871**	68,809
– Accruals and other payables	**53,100**	82,661
– Bank borrowings	**–**	275,000
– Debenture	**3,835**	3,467
– Bond	**291,308**	–

41. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies

The Directors monitor and manage the financial risks relating to the operations of the Group through internal risks reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk and interest risk), credit risk, business risk and liquidity risk.

The Group's major financial instruments include trade receivables, deposits paid, prepayments and other receivables, trade payables, accruals, deposits received and other payables, available-for-sale financial assets, financial assets at fair value through profit or loss, pledged bank deposits, cash and bank balances, debenture, bond and bank borrowings. Details of these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

It is the risk that a counterparty is unable to pay amount in full when due. It arises primarily from the Group's trade receivables. The Group limits its exposure to credit risk by rigorously selecting counterparties. The Group mitigates its exposure to risk relating to trade receivables by dealing with diversified customers with sound financial standing. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. In addition, all receivables balances are monitored on an ongoing basis and overdue balances are followed up by senior management. The Group diversified business base ensures that there are no significant concentrations of credit risk for a particular customer. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

41. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Interest rate risk

(i) Exposure to interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its bank deposits and interest-bearing bank loans. Interest-bearing bank loans at floating rates expose the Group to interest rate risk.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(ii) Sensitive analysis

At 31 December 2016, if interest rates at the date had been 100 basis points higher/lower with all other variables held constant, the Group's profit for the year would not be affected (2015: loss for the year would increase/decrease by RMB173,000). This is mainly attributable to the Group's exposure as result of increase/decrease interest expense on short term bank loans net off with interest income from bank deposits.

Business risk

The Group is exposed to financial risks arising from changes in prices of livestock and livestock's agricultural produce and the change in cost and supply of feed ingredients, all of which are determined by constantly changing market forces of supply and demand, and other factors. The other factors include environmental regulations, weather conditions and livestock diseases. The Group has little or no control over these conditions and factors.

The Group is subject to risks relating to its ability to maintain animal health status. Livestock health problems could adversely impact production and consumer confidence. The Group monitors the health of its livestock on a regular basis and has procedures in place to reduce potential exposure to infectious diseases. Although policies and procedures have been put into place, there is no guarantee that the Group will not be affected by epidemic diseases.

The Group manages its exposure to fluctuation in the price of the key raw materials used in the operations by maintaining a large number of suppliers so as to limit high concentration in a particular supplier.

41. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk

The Group is exposed to minimal liquid risk as a substantial portion of its financial assets and financial liabilities are due within one year and it can finance its operations from existing shareholders' funds and internally generated cash flows.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and mitigate the effect of fluctuations in cash flows. Management monitors the utilisation of borrowings on a regular basis.

The following tables detail Group's contractual maturity for its financial liabilities. The tables has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2016							
Non-derivative financial liabilities							
Trade payables	–	1,871	–	–	–	1,871	1,871
Accruals and other payables	–	53,100	–	–	–	53,100	53,100
Debenture	9.4	197	197	3,162	–	3,556	3,835
Bond	13.7	199,190	159,563	–	–	358,753	291,308
		254,358	159,760	3,162	–	417,280	350,114

	Weighted average interest rate %	On demand or within one year RMB'000	More than one year but less than two years RMB'000	More than two years but less than five years RMB'000	More than five years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2015							
Non-derivative financial liabilities							
Trade payables	–	68,809	–	–	–	68,809	68,809
Accruals and other payables	–	82,661	–	–	–	82,661	82,661
Bank borrowings	5.4	275,000	–	–	–	275,000	275,000
Debenture	9.4	197	197	591	2,768	3,753	3,467
		426,667	197	591	2,768	430,223	429,937

41. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value

Fair value hierarchy

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 measurements are observable and the significance of the inputs to the fair value measurements in its entirety.

The table below analyses the fair value of the Group's assets that are measured at fair value on a recurring basis. The different levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 31 December 2016

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	249,236	–	–	249,236
Available-for-sale financial assets	30,741	–	–	30,741
	279,977	–	–	279,977

As at 31 December 2015

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through profit or loss	150,316	–	35,947	186,263
Available-for-sale financial assets	63,562	–	–	63,562
	213,878	–	35,947	249,825

41. FINANCIAL INSTRUMENTS AND FAIR VALUES (CONTINUED)

(c) Fair value (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	2016 **RMB'000**	2015 RMB'000
As at 1 January	**35,947**	40,065
Derecognised on disposal of subsidiaries	**(25,034)**	–
Fair value loss in profit or loss (Note 10(a))	**(10,913)**	(4,118)
As at 31 December	**–**	35,947

The above fair value loss included in the consolidated statement of profit or loss and other comprehensive income for the current year related to investment in financial assets at fair value through profit or loss (Note 27) held at the end of the reporting period.

Type	**Fair value hierarchy**	**Valuation technique and key input**	**Significant unobservable inputs**
Financial assets			
Financial assets at fair value through profit or loss			
Unlisted equity securities 2015: RMB35,947,000	Level 3	Using the market approach, a price over net book value ("P/B ratio") was used by analysing comparable companies and applying the industry average ratio to value Xiamen Bank.	• For the year ended 31 December 2015, the fair value is based on the net book value of Xiamen Bank as at 31 December 2014, which stands at approximately RMB6,251.7 million, adjusted for net earnings of approximately RMB381.3 million estimated on the basis of historical performance and multiplied by the P/B ratio. (Note)
Listed equity securities in the HK 2016: RMB279,977,000 2015: RMB213,878,000	Level 1	Quoted Price in active market	• NA

Note:

A slight increase in the P/B ratio used in the valuation would result in a slight increase in the fair value measurement of unlisted equity securities and vice versa.

42. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had entered into transactions with related parties which, in the opinion of Directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

(a) Significant related party transactions

Particulars of significant party transactions during the reporting period are as follows:

Name of company	Nature of transaction	Relationship	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Fujian Ronghecheng Food Corporation ("Ronghecheng Food Corporation")	Rental income	Common director in a related company (Note (a))	**267**	366
Ronghecheng Food Corporation	Sales of side products	Common director in a related company (Note (a))	**1,184**	1,680
Xiamen Sumpo Food Trading Limited ("Xiamen Sumpo Food")	Rental paid	Common director in a related company (Note (a))	**41**	54
Perfect Online Holding Limited ("Perfect Online")	Royalties income	Non-controlling shareholder of a subsidiary (Note (b))	**305**	80

Note:

(a) Mr. Lin Qinglin is the director of Xiamen Sumpo Food, Ronghecheng Food Corporation and the Company.

(b) Perfect Online own 3% equity interest of Digital Extremes as at 31 December 2016 (2015: 3% equity interest).

(b) Key management personnel remuneration

	For the year ended 31 December 2016 RMB'000	2015 RMB'000
Short term employee benefits	**6,541**	3,465
Retirement schemes contributions	**73**	28
	6,614	3,493

42. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Guarantees

As at the end of the reporting period, certain related parties provided personal guarantee in relation to secure Group's bank borrowings as follows:

			For the year ended 31 December	
			2016	2015
Personal guarantee given by:	**Name of Banks**	**Period of terms**	**RMB'000**	RMB'000
Mr. Lin Qinglin (Note (i))	China Minsheng Bank	24 December 2015 to 24 December 2016	–	20,000
Mr. Lin Qinglin (Note (i))	China Minsheng Bank	8 July 2015 to 8 July 2016	–	8,000
Mr. Lin Qinglin (Note (i))	China Minsheng Bank	17 Nov 2015 to 17 May 2016	–	27,000
Mr. Lin Qinglin (Note (i))	China Minsheng Bank	10 September 2015 to 10 March 2016	–	10,000
Mr. Lin Qinglin (Note (i))	China Minsheng Bank	2 September 2015 to 2 March 2016	–	25,000
Mr. Lin Qinglin and Mr. Lin Genghua (Notes (i) and (ii))	Bank of Communications	24 September 2015 to 24 September 2016	–	30,000
Mr. Lin Qinglin and Mr. Lin Genghua (Notes (i) and (ii))	Bank of Communications	9 July 2015 to 9 January 2016	–	25,000
Mr. Lin Qinglin and Mr. Lin Genghua (Notes (i) and (ii))	Ping An Bank	11 February 2015 to 11 February 2016	–	20,000
Mr. Lin Qinglin and Mr. Lin Genghua (Notes (i) and (ii))	Ping An Bank	29 August 2015 to 25 February 2016	–	5,000
			–	170,000

Notes:

(i) Mr. Lin Qinglin is an executive director of the Company.

(ii) Mr. Lin Genghua is the son of Mr. Lin Qinglin, an executive director of the Company.

(d) For the connected transaction under Chapter 14A Listing Rules, please refer to "Connected Transaction" under the "Report of the Directors".

43. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the end of each reporting period, the Group had commitments for future minimum lease payments in respect of farms and office premises under non-cancellable operating leases which fall due as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Within one year	**16,401**	7,689
In the second to fifth years, inclusive	**48,202**	30,657
After the fifth years	**25,833**	25,745
	90,436	64,091

Operating lease payments represent rentals payable by the Group for certain of its office premises. Lease in respect of office premises are negotiated for a term of one to twelve years with fixed rentals.

44. COMMITMENTS FOR EXPENDITURE

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Commitments for acquisition of property, plant and equipment	**–**	25,482

45. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to the Group or borrowings of the Group (Note 32):

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Bank deposits	**–**	14,390
Property, plant and equipment	**–**	35,950
Prepaid lease payments	**–**	45,445
Unlisted equity securities in the PRC	**–**	25,000
	–	120,785

46. STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	1,795	2,252
Available-for-sale financial assets	30,741	63,562
Investment in subsidiaries	–	–
	32,536	65,814
Current assets		
Deposits paid, prepayments and other receivables	344,835	2,603
Amounts due from subsidiaries	871,988	776,662
Financial assets at fair value through profit or loss	249,236	150,316
Cash and bank balances	10,414	4,119
	1,476,473	933,700
Current liabilities		
Accruals, deposits received and other payables	19,926	4,785
Amount due to a subsidiary	61,319	–
Bond	145,523	–
	226,768	4,785
Net current assets	1,249,705	928,915
Total assets less current liabilities	1,282,241	994,729
Equity		
Share capital	236,606	236,606
Reserves	896,015	754,656
Total equity	1,132,621	991,262
Non-current liabilities		
Debenture	3,835	3,467
Bond	145,785	–
	149,620	3,467
Total equity and non-current liabilities	1,282,241	994,729

Approved by the board of directors on 30 March 2017 and signed on its behalf by:

Law Kin Fat	**Wu Shiming**
Executive Director	*Executive Director*

47. RESERVES OF THE COMPANY

	Share premium RMB'000	Exchange reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at 1 January 2015	137,512	–	–	(59,373)	78,139
Loss for the year	–	–	–	(59,066)	(59,066)
Other comprehensive income for the year	–	34,312	–	–	34,312
Total comprehensive income/(loss) for the year	–	34,312	–	(59,066)	(24,754)
Issue of shares under placing	697,985	–	–	–	697,985
Transaction cost on placement of shares	(19,696)	–	–	–	(19,696)
Recognition of equity-settled share-based payment expenses	–	–	22,982	–	22,982
As at 31 December 2015 and 1 January 2016	815,801	34,312	22,982	(118,439)	754,656
Profit for the year	–	–	–	62,272	62,272
Other comprehensive income for the year	–	66,263	–	–	66,263
Total comprehensive income for the year	–	66,263	–	62,272	128,535
Lapse of share option	–	–	(5,812)	5,812	–
Recognition of equity-settled share-based payment expenses	–	–	12,824	–	12,824
As at 31 December 2016	**815,801**	**100,575**	**29,994**	**(50,355)**	**896,015**

As at 31 December 2016, the Company's reserves available for distribution to owners of the Company comprising share premium account less accumulated losses amounted to approximately RMB765,446,000 (2015: RMB697,362,000).

48. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name of subsidiary	Place of incorporation	Paid up capital	Percentage of equity interest and voting power attributable to the Company Direct %	Indirect %	Principal activities
Dream Beyond Holdings Limited	BVI	US$1	100	–	Investment holdings
Leyou International Limited	HK	HK$1	–	100	Investment holdings
Leyou World Limited	HK	US$1	–	100	Investment holdings
Dreamscape Horizon Limited	BVI	US$1	–	100	Investment holdings
Leyou Multi-Media Limited	HK	HK$1	–	100	Investment holdings
Multi Dynamic Games	Canada	US$1	–	100	Investment holdings
Leyou World (Shenzhen) Science and Technology Company Limited	PRC	HK$100,000,000	–	100	Trading
Digital Extremes	Canada	CAD1	–	97	Development of video games
Digital Extremes US, Inc.	Canada	US$100	–	97	Marketing support activities
Radius Celestia Limited (formerly known as Fortune Palace Trading Limited)	BVI	US$1	100	–	Investment holdings
Radius Horizon Limited (formerly known as Wise Trend Ventures Limited)	BVI	US$1	–	100	Investment holdings
Radius Maxima Limited (formerly known as Cross Games Limited)	United Kingdom	US$50,000	–	100	Investment holdings

48. PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiary that has material non-controlling interests:

Name of subsidiary	Place and date of incorporation	Proportion of ownership interests and voting power held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Digital Extremes	Canada, 17 September 2013	**3**	42	**43,379**	25,409	**8,930**	210,748

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2016	2015
	RMB'000	RMB'000
Current assets	**281,225**	227,891
Non-current assets	**17,660**	16,223
Current liabilities	**155,598**	95,418
Non-current liabilities	**6,560**	7,890
Total equity	**136,727**	140,806

	2016	2015
	RMB'000	RMB'000
Turnover	**744,002**	322,654
Cost of sales and expenses	**(448,202)**	(216,248)
Profit for the year	**295,800**	106,406
Other comprehensive income for the year	**2**	22
Total comprehensive income for the year	**295,802**	106,428

48. PRINCIPAL SUBSIDIARIES (CONTINUED)

	2016 **RMB'000**	2015 RMB'000
Net cash inflow from operating activities	**304,184**	177,770
Net cash outflow from investing activities	**(2,618)**	(2,454)
Net cash outflow from financing activities	**(312,021)**	(171,930)
Net cash (outflow)/inflow	**(10,455)**	3,386
Dividend paid to non-controlling interest	**99,535**	–

Significant restrictions

Cash and short-term deposits of RMB held in the PRC are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

49. COMPARATIVES

The comparative consolidated statement of profit or loss has been re-presented as the segments of chicken meat, chicken breeds and animal feeds were discontinued during the current year. Certain comparative amounts have been reclassified to conform to the current year's presentation. In the opinion of the Directors, such reclassification provide a more appropriate presentation of the Group's business segments.

50. EVENTS AFTER THE REPORTING PERIOD

Acquisition of the entire equity interest in Splash Damage Limited ("Splash Damage"), Fireteam Limited ("Fireteam") and Warchest Limited ("Warchest").

On 1 July 2016, a direct wholly-owned subsidiary of the Company, entered into the equity transfer agreement and the supplementary agreement in relation to the acquisition of the entire equity interests in Splash Damage, Fireteam and Warchest.

For further details, please refer to the Company's circular dated 22 February 2017.

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2017.

Five Years Financial Summary

For the year ended 31 December 2016

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited consolidated financial statements, is set out below:

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Continuing operation					
Turnover	855,883	322,654	–	–	–
Profit/(loss) before taxation from continuing operation	130,108	36,297	(22,251)	(16,004)	22,515
Taxation	(63,894)	(38,234)	–	–	–
Profit/(loss) after taxation from continuing operation	66,214	(1,937)	(22,251)	(16,004)	22,515
Discontinued operations					
Profit/(loss) after taxation from discontinued operations	26,922	(55,983)	12,233	4,514	(21,586)
Profit/(loss) for the year	93,136	(57,920)	(10,018)	(11,490)	929
Attributable to:					
Owners of the Company	48,576	(81,626)	(10,250)	(12,762)	80
Non-controlling interests	44,560	23,706	232	1,272	849
Profit/(loss) for the year	93,136	(57,920)	(10,018)	(11,490)	929

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	1,522,782	2,040,158	905,447	758,611	742,108
Total liabilities	(486,124)	(646,857)	(397,580)	(291,001)	(263,008)
	1,036,658	1,393,301	507,867	467,610	479,100
Total equity attributable to owners of the Company	1,027,728	1,169,523	493,134	453,109	465,871
Non-controlling interests	8,930	223,778	14,733	14,501	13,229
	1,036,658	1,393,301	507,867	467,610	479,100