ANNUAL REPORT 2017

feiyu

Feiyu Technology International Company Ltd.
飛魚科技國際有限公司
(Incorporated in the Cayman Island with Limited Liability)

Stock Code : 1022

To Better The Virtual World

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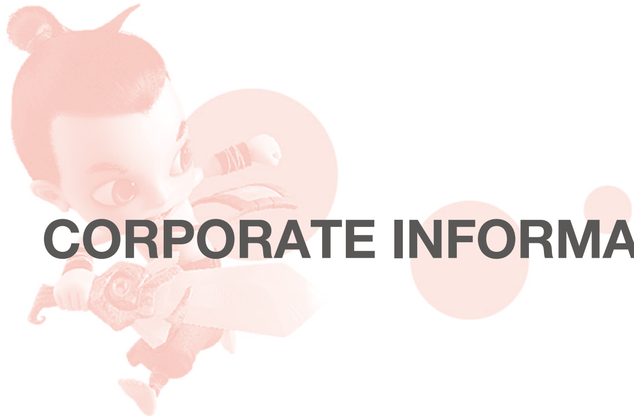

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. SUN Zhiyan *(Chief Technology Officer)*
(resigned with effect from 10 November 2017)
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. BI Lin
Mr. CHEUNG Man Yu

COMPANY SECRETARY

Mr. CHEUNG Man Yu

LEGAL ADVISERS

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

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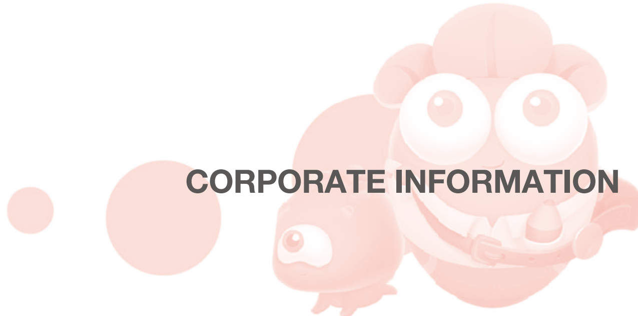
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITOR

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

REGISTERED OFFICE

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



CORPORATE HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F, Winsan Tower
98 Thomson Road
Wanchai, Hong Kong
(with effect from 8 February 2018)

Rooms 801 & 803, 8/F
Beverley House
93–107 Lockhart Road
Wanchai, Hong Kong
(before 8 February 2018)

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

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

INVESTOR RELATIONS

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

COMPANY'S WEBSITE

www.feiyuhk.com

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

1022

DATE OF LISTING

5 December 2014

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For The Year Ended 31 December				
	2017	2016	2015	2014	2013
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	**131,697**	188,133	322,147	339,071	145,037
Gross profit	**92,854**	130,949	267,665	296,778	138,338
(Loss)/Profit before tax	**(389,635)**	(153,269)	99,730	148,501	61,206
(Loss)/Profit after tax	**(388,780)**	(160,915)	94,988	142,368	50,957
(Loss)/Profit for the year attributable to owners of the parent	**(377,455)**	(151,002)	65,882	117,885	52,623
Non-IFRSs Measures					
– Adjusted net (loss)/profit attributable to owners of the parent (unaudited) (1)	**(45,152)**	5,474	163,160	185,596	81,442
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic and diluted	**RMB(0.24)**	RMB(0.10)	RMB0.04	RMB0.11	RMB0.05

Note:

(1). We define adjusted net loss/profit attributable to owners of the parent as net income or loss attributable to owners of the parent excluding share-based compensation, amortisation of intangible assets recognised for acquisitions, impairment loss of goodwill and intangible asset recognised for acquisition of Carrot Fantasy cash-generating unit ("CGU"), loss or gain on fair value change of contingent consideration recognised for acquisitions and listing fees in connection with the Global Offering completed in 2014. The term of adjusted net loss/profit attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss/profit attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss or income attributable to owners of the parent for the year or accounting period.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2017	2016	2015	2014	2013
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Assets					
Non-current assets	**533,277**	881,150	761,467	480,666	492,767
Current assets	**228,972**	319,001	564,323	746,653	189,728
Total assets	**762,249**	1,200,151	1,325,790	1,227,319	682,495
Equity and liabilities					
Total equity	**635,688**	1,025,774	1,070,443	1,150,106	548,101
Non-current liabilities	**4,940**	10,547	5,527	9,603	11,057
Current liabilities	**121,621**	163,830	249,820	67,610	123,337
Total liabilities	**126,561**	174,377	255,347	77,213	134,394
Total equity and liabilities	**762,249**	1,200,151	1,325,790	1,227,319	682,495

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report of the Group for the year ended 31 December 2017.

Competition both domestically and globally in the mobile game market intensified throughout 2017. Mobile penetration rates in China in particular began to slow down as the market for mobile devices has become increasingly saturated. While this created a difficult market environment for us to compete in, it has also brought new opportunities for us to leverage our renowned intellectual property ("IP") and deep experience in game development to distinguish ourselves. Of the trends to stand out in 2017, it is Tencent enabling access to HTML5 games on its WeChat and QQ platforms and the explosive growth in the number of female mobile game players in China that we believe have created the greatest opportunities for us.

Let me turn now to our financial results for 2017, review business developments during the year, and finally, look at our strategy and outlook for the coming year.

Our total revenues decreased by 30% to RMB131.7 million for the year ending on 31 December 2017. Net loss attributable to owners of the parent was RMB377.5 million in 2017, compared to RMB151.0 million in 2016. Adjusted net loss attributable to owners of the parent was RMB45.2 million in 2017, compared to adjusted net profit attributable to owners of the parent of RMB5.5 million last year. 2017 was an important year of transition for us following the adjustment of new game genres and the delay in launching some new games due to our strategic decision to invest additional development time and resources to enhance the quality of them.

Core to our business model and future growth is the development of our solid IP into hit games. Our diverse portfolio of IP provides us with many opportunities to license and further monetize our IP beyond games through both offline and online channels and across different screens and industries. The target audience for our high-quality games continued to expand and diversify in 2017. The implementation of HTML5 on Tencent's platforms has greatly expanded the addressable market by making mobile games much easier to access for many non-gamers. The explosive growth of female gamers in China has also significantly increased opportunities for us going forward.

As part of our strategy, we signed an exclusive licensing agreement with Meitu Networks (美圖網) on 21 March 2018, which allows us to operate, develop and manage the game businesses for Meitu Networks (美圖網) based on their game distribution platforms and channels leveraging their massive user base. For the year ended 31 December 2017, Meitu's apps engaged approximately 415.8 million total MAUs and the number of Meitu smartphone units sold was 1,574,737, which is a great opportunity for us to reach China's growing population of female gamers.

We launched eight games in 2017, including, among others, Super Phantom Cat II (超級幻影貓2), Sprites Legend (靈妖記－神仙道外傳) and Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版). Super Phantom Cat II (超級幻影貓2) took the number one spot on Apple's US adventure games list in terms of free downloads on the second day following its launch for four consecutive days. Sprites Legend (靈妖記－神仙道外傳) launched in September 2017 where it ranked among the top 10 on Apple's app store best-selling list. To take full advantage of the implementation of HTML5, Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版) was introduced together with mini games on WeChat in December 2017 which was followed by the launch of Carrot Defense, an HTML5-based version of Carrot Fantasy (保衛蘿蔔) on Facebook's global platform in February 2018.

Our IP licensing business continued to expand in 2017. In March 2017, we licensed squeeze toys based on Carrot Fantasy's (保衛蘿蔔) main characters for sale in all 7-11 chain stores in Guangdong Province, China. We also issued Yunnan Baiyao (雲南白藥) a license to use Carrot Fantasy (保衛蘿蔔) images on the design and packaging of their dental health and personal care products. Carrot Fantasy (保衛蘿蔔) characters were also invited to join the BTV KAKU Children Channel's 2017 annual cartoon gala, which is one of the most popular satellite television channels for children in China.

CHAIRMAN'S STATEMENT

While 2017 was a year of transition for us, I am confident that we have the right strategy in place to leverage our competitive strengths and grow in a sustainable and long-term manner. Going forward, we will continue to focus our resources on developing high-quality games with 10 games expected to be launched in 2018. We are working diligently on developing more HTML5 games in addition to Carrot Fantasy for WeChat(保衛蘿蔔－迅玩版) and Carrot Defense, hardcore games such as Peace in Chang An (天下長安) and Sgames, and mid-core games such as Carrot Fantasy X (保衛蘿蔔X).

I would like to take this time to extend my deepest gratitude to our employees and management for their commitment and hard work throughout the year. I would also like to thank our shareholders for their continued support and confidence in Feiyu during this transition phase of our business.

YAO Jianjun
Chairman

Hong Kong, 26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2017 marked another year of robust growth for China's online game industry. According to a report published jointly by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委), Gamma Data (伽馬數據), and International Data Corporation (IDC), total revenue from China's online game industry for 2017 was RMB203.6 billion, representing an increase of 23.0% year-over-year, with mobile games being the biggest contributor accounting for 57.0% of the total revenue. The number of online games and mobile games users in China reached 583 million and 554 million in 2017, representing an increase of 3.1% and 4.9% year-over-year, respectively.

Despite the intense competition in China's online game market, there were two major market trends in 2017 which drove growth and brought new opportunities for companies in the industry:

i) HTML5 games were popularised and became the fourth mainstream category following client-based, web and mobile application games in China. With Tencent Holdings Limited ("Tencent") enabling access to HTML5 games on its WeChat and QQ platforms, there was an uptick in conversion of non-existing game users into gamers;

ii) The number of female gamers continued to grow, creating a 'blue ocean' market. According to a report jointly published by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協遊戲工委) and TalkingData, the number of female gamers in China increased to 260 million in 2016 from less than 1 million in 2013, representing a compound annual growth rate of about 538.3%. This number is expected to continue to grow over the next few years. Female gamers not only grew in population size, but also demonstrated strong potential in revenue contribution as shown in developed game markets, such as North America and Japan.

During the year ended 31 December 2017, the Company generated total revenue of approximately RMB131.7 million, representing a year-over-year decrease of 30.0%. Net loss attributable to owners of the parent for the year ended 31 December 2017 was approximately RMB377.5 million as compared to RMB151.0 million for the year ended 31 December 2016. Adjusted net loss attributable to owners of the parent was approximately RMB45.2 million as compared to adjusted net profit attributable to owners of the parent of RMB5.5 million for the year ended 31 December 2016. The decrease in total revenue and the increase in net loss attributable to the owners of the parent for the year ended 31 December 2017 was primarily due to: (i) decrease in revenue from the Group's existing games as they reached mature stages of their product life cycles; (ii) delay in launching new games due to the Group's strategic decision to invest additional development time and resources to enhance the quality of such games; (iii) underperformance of newly launched games in 2017; and (iv) the diversification of game categories currently under development required additional time to recruit and establish R&D teams. The increase in the net loss attributable to owners of the parent for the year ended 31 December 2017 was also due to an increase in impairment loss of goodwill made of approximately RMB300.1 million which is related to goodwill recognised in 2013 pursuant to our acquisition of Kailuo Tianxia as disclosed in the Prospectus dated 25 November 2014 issued by the Company as compared to impairment loss of goodwill of RMB106.4 million made for the year ended 31 December 2016.

In 2017, the Company launched 8 games in total. Four of the games were launched in the first half, including I Am the Hero (英雄就是我), Push Heroes (推拉英雄), Eat Fatty (你胖你先吃) and Tiny Gun (小小槍), were developed and launched by Crazyant (瘋狂螞蟻), one of the Company's studios focusing on high quality in-house developed games. I Am the Hero (英雄就是我) was published on Steam in January, on Tencent's WeGame in April and on Apple's App Store in November 2017 respectively and received very positive user feedback on all platforms. Push Heroes (推拉英雄) was recommended on Google Play and Apple's App Store global home page in May 2017. Eat Fatty (你胖你先吃) was recommended on the home page of Apple's Mainland China and Hong Kong App Store in June 2017.

The other 4 games were launched in the second half of 2017, which were The Initial (初體計劃), Super Phantom Cat II (超級幻影貓2), Sprites Legend (靈妖記－神仙道外傳) and Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版). The Initial (初體計劃) was launched in July 2017 on Steam and was ranked number 1 on the best-selling list for 1 week following its launch. Super Phantom Cat II (超級幻影貓2) was launched in August 2017 on Apple's platforms globally in 11 different languages and was recommended by Apple on its App Store's home page globally. The game took the number 1 spot on the US adventure games list in terms of free downloads on the second day after it was launched and maintained this rank for 4 consecutive days. Sprites Legend (靈妖記－神仙道外傳) was launched in September 2017 and ranked top 10 on the best-selling list on Apple's App Store shortly after it was launched. Last but not the least, as one of the first batch of mini games launched on Tencent's WeChat platform, Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版) was introduced together with mini games on WeChat in December 2017. To further capture market opportunities in HTML5 games, the Company also launched Carrot Defense, an HTML5-based version of Carrot Fantasy (保衛蘿蔔) on Facebook's platform globally in February 2018.

Intellectual property ("IP") continues to be the most important asset of the Company and continuous efforts were made in 2017 to further improve the business value of IPs and expand the IP licensing business. In January 2017, the major characters in the Company's Carrot Fantasy (保衛蘿蔔) game series were invited to join the 2017 cartoon annual gala of the BTV KAKU Children Channel, which is one of the most popular satellite television channels for children in Mainland China. In March 2017, licensed squeeze toys with different vivid facial expressions created from Carrot Fantasy's (保衛蘿蔔) main characters went on sale in all 7-11 chain stores in Guangdong Province of the PRC. In addition, the Company issued to Yunnan Baiyao (雲南白藥), a well-recognised dental health product manufacturer in China, a license to use the images of Carrot Fantasy (保衛蘿蔔) on the design and packaging of their dental health and personal care products. The images of Carrot Fantasy (保衛蘿蔔) were also licensed to be used on AESIR's cell phone cases. The Company not only took the initiative to license its online game IPs for merchandise, but also worked with other well-known brands to cross promote their respective brands, including Meipai (美拍), Mirinda and Baidu Map (百度地圖). In terms of offline events, the Company worked with Beijing Xiedao Resort (蟹島度假村) and decorated a 200-square venue in the resort with the Carrot Fantasy (保衛蘿蔔) theme and sold licensed merchandise during the school holiday in summer 2017.

To keep pace with the fast-changing market, the Company has brought on board new talent and implemented a few organisational initiatives with an effort to keep the competitiveness of its R&D teams. In May 2017, the Company opened a Shenzhen office to underpin its long-term development.

To strengthen its game distribution network, the Company invested in Ewan (Shanghai) Network Technology Co., Ltd. ("Ewan"), a company primarily engaged in developing and operating its emerging TapTap mobile game distribution platform, in May 2017. TapTap is not only a mobile game publishing platform, but also a game community and media platform. This superior mobile game platform has a large number of high quality games and developers as well as a remarkable number of high-spending gamers.

Principal risks relating to our business

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

- We face uncertainties in the continued growth of the mobile game and web game industries and the market acceptance of our mobile games and web games.
- Delays of game launches could negatively affect our operations and prospects;
- If we are unable to extend the relatively short expected life cycle of our web games and mobile games or if our games do not maintain their popularity during their expected life cycle, our business, financial condition, results of operations and prospects could be material and adversely impacted.
- We rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, our business and results of operations could be materially and adversely affected.
- We may not be able to adapt to the rapidly evolving mobile game and web game industries in China, especially to changes in technology. If we fail to anticipate or successfully implement new technologies, our games may become obsolete or uncompetitive, and our business, financial conditions, results of operations and prospects could be materially and adversely affected.
- We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees.
- Goodwill impairment could negatively affect our reported results of operations.

To mitigate the identified risks, we regularly monitors risks and reviews business strategies and financial results. We implemented the following strategies to ensure the risks are managed:

- We set up a strategic development department to track and respond to the changes in players' preferences in a timely and effective manner;
- We further strengthened our data analytics capabilities to continue developing popular games, improve player experience and enhance monetization of our games;
- We continue to actively monitor the progress of our pipeline games;
- We constantly enhance or upgrade our existing games with new features that players find attractive;
- To keep pace with the market, we have brought on board new talent and implemented a leaner corporate structure in an effort to maintain the competitiveness of our R&D teams;
- We continue to maintain good relationships with a sufficient number of distribution and publishing platforms and we opened our Shenzhen office to underpin our long-term development in game distribution and publishing.

MANAGEMENT DISCUSSION AND ANALYSIS

Outlook for 2018

With the tremendous efforts in organisational adjustment in 2017, the Company will expand its new product offerings in 2018 and continue to focus on introducing high quality games to users supported by three major pillars: hardcore games, quick response and continuous exploration.

Hardcore games: Leveraging on its existing popular IPs, the Company will develop and launch sequels to the IPs while incorporating new gameplay mechanics to adapt to the fast-changing market. The games currently under development in this category are Carrot Fantasy X (保衛蘿蔔X) and Sanguozhiren II (三國之刃2).

Quick response: To capture the opportunity window of HTML5 games, the Company will introduce other casual HTML5 games in addition to Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版) and Carrot Defense, followed by midcore simulation and hardcore RPG HTML5 games at a later stage.

Continuous exploration: The Company will continue to explore opportunities in vertical categories, independent games, Steam and console platforms in 2018.

The Company expects to launch 10 games in total in 2018.

In terms of IP enhancement and licensing, the Company will continue to expand the Carrot Fantasy (保衛蘿蔔) IP licensing business to more merchandise and services, creating an additional stream of revenue while also promoting the Carrot Fantasy (保衛蘿蔔). In addition, a Carrot Fantasy (保衛蘿蔔) cartoon is under development and is expected to be released in 2019.

Event after the year ended 31 December 2017

The Company entered into an exclusive licensing agreement with Meitu Networks (美圖網), as disclosed in the Company's announcement dated 21 March 2018, which allows the Company to operate, develop and manage the game businesses for Meitu Networks (美圖網) based on their game distribution platforms and channels. Leveraging Meitu Networks' (美圖網) tremendous and highly engaged user base, female users in particular, and the Company's extensive experience in game development and operation, the cooperation enables the Company uniquely positioned to seize the opportunity of the emerging female game market.

Based on the cooperation established with Meitu Networks (美圖網), the Company is believed to be able to enhance its game distribution business, strengthen its game distribution network and broaden its game distribution revenue base.

Final Dividend

The Board did not declare a final dividend for the year ended 31 December 2017 (the year ended 31 December 2016: Nil)

FINANCIAL REVIEW

Operating Information

Our Games

During the year, we continued to focus on developing high quality mobile games and PC games to meet the constantly changing demand of gamers and cope with the increasingly intense competition in the game industry. One of our studios in Xiamen focusing on high quality casual games published 4 casual games during the year ended 31 December 2017 under the independent brand name of Crazyant (瘋狂螞蟻) and we also launched The Initial (初體計劃), Super Phantom Cat II (超級幻影貓2), Sprites Legend (靈妖記－神仙道外傳) and Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版), which have received very positive feedback.

The table below presents a breakdown of our revenue from game operations in absolute amounts and as a percentage of our total revenue:

	For the year ended 31 December			
	2017		2016	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operation				
Web games	**15,850**	**12.0**	25,961	13.8
Mobile games				
RPGs	**86,439**	**65.6**	97,148	51.6
Casual	**7,320**	**5.6**	37,377	19.9
PC games	**3,233**	**2.5**	–	–
Total	**112,842**	**85.7**	160,486	85.3

The contribution to total revenue of the Group from game operation remained stable, recording at 85.7% of total game operation revenue in 2017 as compared with 85.3% in 2016. Contribution from our RPG mobile games to total revenue increased from 51.6% in 2016 to 65.6% in 2017 primarily due to the launch of Sprites Legend (靈妖記－神仙道外傳) in the second half of 2017.

Our Players

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

As at 31 December 2017, (i) our RPG mobile games and web games, had approximately 217.8 million cumulative registered users, composed of approximately 170.2 million users for web games and approximately 47.6 million users for mobile games; (ii) our casual games had approximately 476.1 million cumulative activated downloads; and (iii) our PC games had approximately 137,000 cumulative activated downloads. For the month of December 2017, (i) our RPG mobile games and web games had approximately 0.9 million MAUs in aggregate, composed of approximately 0.6 million MAUs for mobile games and approximately 0.3 million MAUs for web games; while (ii) our casual games had approximately 9.8 million MAUs.

The following table sets forth certain operating statistics related to our business for the years indicated:

	For the year ended 31 December		
	2017	2016	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**15**	25	(40.0)
Mobile games (RPGs) (000's)	**67**	86	(22.1)
Casual (000's)	**120**	503	(76.1)
ARPPU			
Web games (RPGs) (RMB)	**90.3**	85.2	6.0
Mobile games (RPGs) (RMB)	**134.9**	94.0	43.5
Casual (RMB)	**5.6**	6.2	(9.7)

Note:

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

Average MPUs for mobile RPG games decreased from approximately 86,000 for the year ended 31 December 2016 to approximately 67,000 for the year ended 31 December 2017, primarily due to the maturing of one of our hit titles, San Guo Zhi Ren (三國之刃), which reached the mature stage of its lifecycle in 2016 and the later stages of its lifecycle during the year ended 31 December 2017. Average MPUs for mobile casual games decreased from approximately 503,000 for the year ended 31 December 2016 to approximately 120,000 for the year ended 31 December 2017. This was mainly attributable to the decrease in the average MPUs for the Carrot Fantasy (保衛蘿蔔) game series, which began transitioning into the late stages of their expected lifecycles. MPUs for web games were approximately 15,000 for the year ended 31 December 2017 as compared to approximately 25,000 for the year ended 31 December 2016. The decrease was due to our web games reaching the later stages of their expected lifecycles in 2017, as well as our strategic shift from web games to mobile games which began in 2013.

RPG mobile games ARPPU increased to approximately RMB134.9 for the year ended 31 December 2017 as compared to approximately RMB94.0 for the year ended 31 December 2016. The increase was primarily driven by the launch of Sprites Legend (靈妖記－神仙道外傳) in September 2017 with higher ARPPU due to its self-operation mode under which the Company fully recognises the game's revenue and the increasing willingness of loyal gamers to spend on our existing RPG mobile games during the mature stages of their lifecycles. Web games ARPPU increased slightly from approximately RMB85.2 for the year ended 31 December 2016 to approximately RMB90.3 for the year ended 31 December 2017, primarily driven by an increase in ARPPU for the web version of Shen Xian Dao (神仙道), which was launched in 2011 and is currently in the mature stage of its lifecycle where loyal players are more willing to spend. Casual mobile games' ARPPU decreased slightly from approximately RMB6.2 for the year ended 31 December 2016 to approximately RMB5.6 for the year ended 31 December 2017. The decrease was primarily due to a decrease in ARPPU from Carrot Fantasy game series.

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

The year ended 31 December 2017 compared to the year ended 31 December 2016

The following table sets forth the income statement of our Group for the year ended 31 December 2017 as compared to the year ended 31 December 2016.

	For the year ended 31 December		
	2017	2016	**Change %**
	(RMB'000)	(RMB'000)	
Revenue	**131,697**	188,133	(30.0)
Cost of sales	**(38,843)**	(57,184)	(32.1)
Gross profit	**92,854**	130,949	(29.1)
Other income and gains	**29,865**	99,692	(70.0)
Selling and distribution expenses	**(40,099)**	(11,507)	248.5
Administrative expenses	**(64,327)**	(60,951)	5.5
Research and development costs	**(93,701)**	(180,085)	(48.0)
Finance costs	**(1,333)**	(970)	37.4
Other expenses	**(312,676)**	(129,626)	141.2
Share of losses of associates	**(218)**	(771)	(71.7)
LOSS BEFORE TAX	**(389,635)**	(153,269)	154.2
Income tax credit/(expense)	**855**	(7,646)	(111.2)
LOSS FOR THE YEAR	**(388,780)**	(160,915)	141.6
Attributable to:			
Owners of the parent	**(377,455)**	(151,002)	150.0
Non-controlling interests	**(11,325)**	(9,913)	14.2

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2017 and 2016:

	For the year ended 31 December			
	2017		2016	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operation	**112,842**	**85.7**	160,486	85.3
Online game distribution	**2,916**	**2.2**	1,886	1.0
Licensing and IP-related income	**9,698**	**7.4**	14,503	7.7
Advertising revenue	**5,980**	**4.5**	11,064	5.9
Technical service income	**261**	**0.2**	194	0.1
Total	**131,697**	**100.0**	188,133	100.0

Total revenue decreased by approximately 30.0% to approximately RMB131.7 million for the year ended 31 December 2017 from the year ended 31 December 2016.

Revenue from game operation decreased by approximately 29.7% to approximately RMB112.8 million for the year ended 31 December 2017 from the year ended 31 December 2016. This decrease was primarily due to San Guo Zhi Ren (三國之刃) hitting the mature stage of its lifecycle in 2016 and later stages of its lifecycle in 2017. The decrease in the revenue from our other existing games also dragged down our total revenue as they reached the mature stages of their respective product lifecycles. In addition, the decrease was also due to the delay in launching our new key games as a result of the Group's strategic decision to invest additional development time and resources to enhance the quality of such games. Other than Super Phantom Cat II (超級幻影貓2) and Sprites Legend (靈妖記一神仙道外傳), which were launched on 17 August 2017 and 6 September 2017 respectively, the Group did not launch other new key games in 2017. Furthermore, the underperformance of newly launched key games in 2017 with limited contribution to the Group's revenue was another reason for the decrease.

Revenue from online game distribution increased by 54.6% to RMB2.9 million for the year ended 31 December 2017 from the year ended 31 December 2016, which was primarily due to the launch of new games by our overseas game distribution and operation team.

Licensing and IP-related income decreased by approximately 33.1% to approximately RMB9.7 million for the year ended 31 December 2017 from the year ended 31 December 2016. The decrease was primarily attributable to the recognition of a one-off licensing fee for the Korean version of San Guo Zhi Ren (三國之刃) of approximately RMB4.0 million upon termination of its operation during the year ended 31 December 2016 while there was no such one-off licensing fee recognised during the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Advertising revenue decreased by approximately 46.0% to approximately RMB6.0 million for the year ended 31 December 2017 from the year ended 31 December 2016, primarily due to Carrot Fantasy (保衛蘿蔔) and Carrot Fantasy II (保衛蘿蔔2) reaching late stages of their lifecycles as the number of active users declined. Both games have significantly exceeded the industry average lifespan for a game. The decrease was partially offset by advertising revenue of newly launched casual games from our Crazyant (瘋狂螞蟻) studio and Super Phantom Cat II (超級幻影貓2).

Technical service income increased by approximately 34.5% to approximately RMB0.3 million for the year ended 31 December 2017 from the year ended 31 December 2016, which was primarily due to an increase in technical support income generated by our Chengdu subsidiary through providing technical support services.

Cost of sales

Our cost of sales decreased by approximately 32.1% from approximately RMB57.2 million for the year ended 31 December 2016 to approximately RMB38.8 million for the year ended 31 December 2017, primarily due to the decrease in amortisation cost relating to intangible assets pursuant to the acquisition of Kailuo Tianxia as disclosed in the Prospectus from RMB20.5 million for the year ended 31 December 2016 to RMB3.6 million for the year ended 31 December 2017 which was due to the full amortisation of Carrot Fantasy I (保衛蘿蔔1)'s IP and the impairment of Carrot Fantasy II (保衛蘿蔔2)'s IP in the second half of 2016.

Gross profit and gross profit margin

Gross profit decreased by 29.1% from approximately RMB130.9 million for the year ended 31 December 2016 to approximately RMB92.9 million for the year ended 31 December 2017. Our gross profit margin for the year ended 31 December 2017 was 70.5%, as compared to 69.6% for the year ended 31 December 2016.

Other income and gains

Our other income and gains decreased by approximately 70.0% from approximately RMB99.7 million for the year ended 31 December 2016 to approximately RMB29.9 million for the year ended 31 December 2017, primarily due to the recognition of gain on fair value change of contingent consideration of RMB75.6 million for the year ended 31 December 2016 whereas a loss on fair value change of contingent consideration of approximately RMB0.5 million was recognised under other expenses for the year ended 31 December 2017. The gain on fair value change of the contingent consideration for the year ended 31 December 2016 represented the gain on fair value change of the contingent consideration of the remaining balance of 59,000,000 consideration shares to Fine Point Development Limited ("Fine Point") regarding the acquisition of 100% equity interest in Jiaxi Global Limited ("Jiaxi Global") (which indirectly holds 25% of the registered capital of each of Xiamen Yidou Internet Technology Co., Ltd. ("Xiamen Yidou") and Xiamen Zhangxin Interactive Technology Co., Ltd. (the "PRC Companies")) which had been expected to be allotted and issued in 2017 and 2018 as disclosed in the Company's circular dated 27 July 2015 (the "Circular"). As Fine Point unconditionally and irrevocably waived the Fourth Tranche Consideration Shares (as defined in the Circular) as disclosed in the announcement of the Company dated 2 January 2017, there was no outstanding contingent consideration as at 31 December 2017 after the Third Tranche Consideration Shares (as defined in the Circular) were allotted and issued on 31 March 2017. The loss on fair value change of the contingent consideration recognised for the year ended 31 December 2017 represented the loss recognised for the increase in the fair value of financial liability related to the Third Tranche Consideration Shares issued on 31 March 2017 due to the increase in closing price of Shares as compared with the closing price as at 31 December 2016. The decrease in other income and gains was partially offset by the increase in government grants from approximately RMB8.2 million for the year ended 31 December 2016 to approximately RMB14.2 million for the year ended 31 December 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately 248.5% from approximately RMB11.5 million for the year ended 31 December 2016 to approximately RMB40.1 million for the year ended 31 December 2017. The increase was mainly attributable to the increase in channel fees and advertisement costs from approximately RMB2.1 million and RMB10.7 million for the year ended 31 December 2016 to approximately RMB11.4 million and RMB26.8 million for the year ended 31 December 2017, respectively. The increase in channel fees was mainly due to the launch of Sprites Legend (靈妖記－神仙道外傳) on Apple Inc.'s App Store in September 2017 and for this game, we recognised revenue on a gross basis and recognised App Store channel fees in selling and distribution expenses. The increase in advertisement costs was due to the increase in the number of promotional activities relating to the launch of Sprites Legend (靈妖記－神仙道外傳) in the second half of 2017. The increase in selling and distribution expenses was also attributable to an increase in share-based compensation by approximately RMB1.9 million as a result of the forfeiture of share options in 2016, of which the cost had been recognised in the previous years, while there was no such forfeiture for the year ended 31 December 2017.

Administrative expenses

Our administrative expenses increased by approximately 5.5% from approximately RMB61.0 million for the year ended 31 December 2016 to approximately RMB64.3 million for the year ended 31 December 2017. The increase was primarily attributable to an increase in salaries, pension schemes contribution and welfare from approximately RMB32.2 million for the year ended 31 December 2016 to approximately RMB35.9 million for the year ended 31 December 2017, which was mainly driven by the increased number of management and administrative employees needed to support the newly setup Shenzhen office and to support the growth of our business in the long run.

Research and development costs

Our R&D costs decreased by approximately 48.0% from RMB180.1 million for the year ended 31 December 2016 to approximately RMB93.7 million for the year ended 31 December 2017. This decrease was primarily due to a one-off share-based payment of RMB66.2 million in 2016 while there was no such expense in 2017. The share-based payment was related to the transfer of 42.1 million Shares in 2016 from a major shareholder to a few key employees who were responsible for the Group's game development as a reward for their contribution to the Group. The reward cost was measured at the fair value of the shares on the date of the transfer and charged against the consolidated statement of profit or loss as employees' remuneration. The decrease was also due to the decrease in the deemed share-based payment from approximately RMB6.1 million for the year ended 31 December 2016 to approximately RMB2.4 million for the year ended 31 December 2017. The deemed share-based payment was related to the non-reciprocal capital contributions made by the Group to the non-wholly owned subsidiaries of which the non-controlling shareholders are employees. The amount of contributions made by the parent company to non-controlling shareholders was charged against the consolidated statement of profit or loss as employees' remuneration. The decrease was also due to a decrease in salaries, pension schemes contribution and welfare from approximately RMB79.2 million for the year ended 31 December 2016 to approximately RMB61.2 million for the year ended 31 December 2017 as a result of the decreased average number of R&D employees to keep the R&D teams competitive and the decreased bonus which was related to the profit of each R&D teams.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs consisted of interest expenses on the time loan taken out by the Company as financial leverage for life insurance policies. Our finance costs increased by approximately 37.4% from approximately RMB1.0 million for the year ended 31 December 2016 to approximately RMB1.3 million for the year ended 31 December 2017 primarily due to higher interest rates.

Other expenses

Our other expenses increased by approximately 141.2% from approximately RMB129.6 million for the year ended 31 December 2016 to approximately RMB312.7 million for the year ended 31 December 2017. The increase was primarily attributable to an increase in impairment loss of goodwill made of approximately RMB300.1 million which is related to goodwill recognised in 2013 pursuant to our acquisition of Kailuo Tianxia as disclosed in the Prospectus as compared to impairment loss of goodwill of RMB106.4 million made for the year ended 31 December 2016.

Reasons and details of circumstances that led to the impairment loss of goodwill

The impairment loss of goodwill made was due to the recoverable amount of the Carrot Fantasy CGU to which the goodwill related was less than the carrying amount of the goodwill.

Carrot Fantasy III (保衛蘿蔔3) was launched in June 2016. The delayed launch of the sequel was considered as an indication of impairment for the goodwill aforementioned.

Key assumptions adopted in assessing the impairment loss of goodwill

We performed the impairment assessment with assistance from an external valuer, and based on this assessment, the recoverable amount of the goodwill was determined by the value in use of the CGU, which was lower than the carrying amount of the goodwill as of 31 December 2017. As the Company is not able to have a reliable estimate of fair value less cost of disposal, the recoverable amount of the CGU to which the goodwill is allocated has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a seven-year period. The key assumptions for the value in use calculations are those regarding the discount rates, budgeted income during the period and growth rates. We estimate discount rates using pre-tax rates of 24% that reflect current market assessments of the time value of money and the risks specific to the CGU. The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The operating margin and growth rate within the seven-year period have been based on management expectations. The growth rate used to extrapolate the cash flows of the relevant games beyond the relevant periods is 3%. There is no significant change in the valuation of the assumptions from those previously adopted except for the estimated income which was mainly due to the delay of the sequel. Details of the Group's impairment testing of goodwill is set out in Note 15 to the financial statements.

Income tax

We recorded a negative income tax expense of approximately RMB0.9 million for the year ended 31 December 2017 as compared to the income tax expense of approximately RMB7.6 million for the year ended 31 December 2016. The change was mainly attributable to the income tax refund received by two subsidiaries of the Company which were profitable and recognised income tax expense of approximately 5.7 million in total for the year ended 31 December 2016, but were certified to be software enterprises and thus exempt from income tax for the year ended 31 December 2016 in the second half of 2017. The change in income tax expenses was also due to the decrease in revenue and profits from the Company's subsidiaries which were not exempted from income tax for the year ended 31 December 2017.

Loss for the year

As a result of the above, the loss for the year increased by 141.6% from approximately RMB160.9 million for the year ended 31 December 2016 to approximately RMB388.8 million for the year ended 31 December 2017. And the loss attributable to owners of the parent increased by 150.0% from approximately RMB151.0 million for the year ended 31 December 2016 to approximately RMB377.5 million for the year ended 31 December 2017.

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

In addition to our consolidated financial statements which are presented in accordance with IFRSs, we also provide further information based on the adjusted net loss or profit attributable to owners of the parent as an additional financial measure. We present this financial measure because it is used by our management to evaluate our financial performance by eliminating the impact of items that we do not consider indicative of our business performance. We also believe that these non-IFRSs measures provide additional information to investors and others, helping them to understand and evaluate our consolidated results of operations in the same manner as our management and to compare financial results across accounting periods and with those of our peer companies.

We define adjusted net loss or profit attributable to owners of the parent as net loss attributable to owners of the parent excluding share-based compensation, amortisation of intangible assets recognised for acquisitions, impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU and loss/gain on fair value change of contingent consideration recognised for acquisitions. The term of adjusted net loss or profit attributable to owners of the parent is not defined under IFRSs. The use of adjusted net loss or profit attributable to owners of the parent has material limitations as an analytical tool as it does not include all items that would impact our net loss attributable to owners of parent for the accounting period.

	For the year ended 31 December		
	2017	2016	**Change %**
	(RMB'000)	(RMB'000)	
Loss for the year attributable to owners of the parent	**(377,455)**	(151,002)	150.0
Add:			
Share-based compensation	**28,133**	95,595	(70.6)
Amortisation of intangible assets recognised for acquisitions	**3,599**	20,485	(82.4)
Impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU	**300,076**	115,980	158.7
Loss/(gain) on fair value change of contingent consideration recognised for acquisitions	**495**	(75,584)	(100.7)
Total	**(45,152)**	5,474	(924.8)

Financial Position

As at 31 December 2017, total equity of the Group amounted to approximately RMB635.7 million, as compared to RMB1,025.8 million as of 31 December 2016. The decrease was mainly due to an impairment loss of goodwill recognised for Carrot Fantasy CGU of approximately RMB300.1 million for the year ended 31 December 2017. The decrease was also due to the equity impact of approximately RMB47.2 million regarding the repurchase of Shares on the Stock Exchange and the adjusted loss for the year attributable to owners of the parent of approximately RMB45.2 million recognised for the year ended 31 December 2017.

The Group's net current assets amounted to approximately RMB107.4 million as at 31 December 2017 as compared to approximately RMB155.2 million as at 31 December 2016. This decrease was primarily due to the payment of approximately RMB47.2 million in repurchase of Shares on the Stock Exchange.

Liquidity and Capital Resources

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

	2017 (RMB'000)	2016 (RMB'000)	**Change %**
Net cash flow (used in)/from operating activities	**(75,819)**	17,791	(526.2)
Net cash flow from/(used in) investing activities	**38,280**	(186,237)	(120.6)
Net cash flow used in financing activities	**(40,606)**	(61,879)	(34.4)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(78,145)**	(230,325)	(66.1)
Cash and cash equivalents at the beginning of year	**237,028**	463,897	(48.9)
Effect of foreign exchange rate changes, net	**(3,486)**	3,456	(200.9)
Cash and cash equivalents at the end of year	**155,397**	237,028	(34.4)

Our total cash and cash equivalent amounted to approximately RMB155.4 million as at 31 December 2017, as compared to approximately RMB237.0 million as at 31 December 2016. The decrease was primarily due to the payment of approximately RMB47.2 million for the repurchase of Shares on the Stock Exchange during 2017 and the refund of the prepaid licensing fee and royalty payment of approximately RMB23.6 million to Beijing Star World Technology Company Limited (北京世界星輝科技有限責任公司) ("Star World") in relation to the termination of a license agreement with Star World as disclosed in the announcement of the Company dated 24 March 2017.

As at 31 December 2017, approximately RMB32.8 million of our financial resources (31 December 2016: RMB79.6 million) were held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and constant monitoring. The Group has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities are centralised and cash is generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States Dollars.

As at 31 December 2017, we had time loan of approximately HK$64.0 million (31 December 2016: US$8.0 million) with an interest rate of 2.436% which is secured by certain life insurance policies as detailed below, which was used by the Company as financial leverage for the life insurance policies.

Significant Available-for-sale Investments Held

As at 31 December 2017 we had available-for-sale investments of approximately RMB370.0 million (31 December 2016: RMB406.3 million) and had no short-term investments (31 December 2016: Nil). There were no current available-for-sale investments as at 31 December 2017 (31 December 2016: RMB7.1 million) and the non-current available-for-sale investments represented the straight bonds, convertible bond and convertible preferred shares issued by banks or reputable companies, with Standard & Poor ("S&P") rating above BB- and coupon rates ranging from 4.25% to 6.5% per annum which were invested in by the Company, the investment in life insurance policies by the Company, and equity interests held by the Group in nine unlisted companies and one company listed on the China New Third Board. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policy at any time and receive a refund based on the surrender value of the contracts at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

The principal of the available-for-sale investments as at 31 December 2017 are not protected. The fair values of available-for-sale investments in straight bonds, convertible bonds and convertible preferred shares have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market inputs. The fair values of the life insurance policies represent the cash value of such insurance policies which are detailed in the above paragraph.

Details of the Group's available-for-sale investments are set out in the section headed "Performance and Future Prospect of Significant Available-for-sale Investments Held".

According to our current internal investment management policies, no less than 50% of our total investment is invested in risk-free or principal-protected investments while the remaining of up to 50% of the total investment is invested in low risk products. We have a diversified investment portfolio to mitigate risks. Besides, the above investments were made in line with our effective capital and investment management policies and strategies.

Performance and Future Prospect of Significant Available-for-sale Investments Held

Details of the Group's available-for-sale investments as at 31 December 2017 are presented as follows:

(A) Significant Structured Financial Product

Name of the structured financial product	Notes	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017** (RMB'000)	**Fair value as at 31 December 2016** (RMB'000)	**Fair value as at 31 December 2017** (RMB'000)
China Merchants Bank – Dian Jin Chi (點金池)	1	11	64,000	–
Others	2	290	7,139	–

Notes:

1. The structured financial product Dian Jin Chi (點金池) as at 31 December 2016 was issued by China Merchants Bank with floating interest rate and without maturity date. The principle of the structured financial product was protected and the Group can decide when to withdraw the structured financial product. Based on the historical record and estimation of the bank, the expected interest rate of the structured financial product would be 1.5% per annum.

   Pursuant to the instruction of Dian Jin Chi, the fund raised by Dian Jin Chi will be invested in the financial assets in the Chinese interbank market with higher credit rating and better liquidity. According to the announcement on the official website of China Merchants Bank, Dian Jin Chi maintained an average annual interest rate of 1.5% throughout the year ended 31 December 2016.

   The Group entered into the investment contract on 30 December 2016 and withdrew the structured financial product in early-January 2017 with the purpose to facilitate temporary fund utilisation. The actual interest rate of the structured financial product was 1.5%.

2. Other structured financial product as at 31 December 2016 represented a structured financial product issued by an asset management company in the PRC with an expected interest rate at 4.2% per annum and a maturity period of 180 days. The structured financial product was matured in March 2017 and the actual interest rate of the structured financial product was 4.2%.

(B) Straight Bonds

Name of the straight bonds	Notes	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017 (RMB'000)	Changes in fair value (RMB'000)	Fair value at 31 December 2017 (RMB'000)	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
Huarong Finance II Co., Ltd. ("Huarong Finance II")	1	933	152	23,508	6.4%	3.1%
Zhongrong International Bond 2015 Limited ("ZIB 2015")	2	983	475	20,107	5.4%	2.6%
Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017")	3	469	(901)	19,647	5.3%	2.6%
Bank of East Asia ("BEA")	4	415	(671)	26,156	7.1%	3.4%
Sparkle Assets Limited ("SAL")	5	1,477	–	–	–	–

Notes:

1. Please refer to Note 21(1) to the financial statements for the details of the bond issued by Huarong Finance II.

   Huarong Finance II, the issuer of the bond, is a subsidiary of China Huarong Asset Management Co., Ltd. ("China Huarong"), of which its shares are listed on the Main Board of the Stock Exchange since 30 October 2015 (Stock Code: 2799). The bond issued by Huarong Finance II was unconditionally and irrevocably guaranteed by Huarong (HK) International Holdings Limited, a subsidiary of China Huarong, and with the benefit of a keepwell deed and a deed of equity interest purchase, investment and liquidity support undertaking by China Huarong. China Huarong (together with its subsidiaries, "Huarong Group") is a leading asset management company ("AMC") and one of the four largest state-owned AMCs in the PRC. The principal businesses of Huarong Group are distressed asset management, financial intermediary services, principal investments, banking, financial leasing, securities, trust and special asset management.

   Pursuant to the annual results announcement of Huarong Group for the year ended 31 December 2017, Huarong Group recorded the total income of approximately RMB128,070.6 million and profit for the year of approximately RMB26,587.7 million. In 2017, Huarong Group unswervingly enhanced the core business of distressed asset management, persisted in the synergic development of "innovation + prudence" and various sectors of "one body, two wings", achieved steady growth of operating results.

   The Group believes that the Huarong Group will continue its business expansion and value creation and is therefore optimistic about the future prospect of Huarong Group.

2. Please refer to Note 21(1) to the financial statements for the details of the bond issued by ZIB 2015.

   ZIB 2015, the issuer of the bond, is a wholly-owned subsidiary of the bond's guarantor, Zhongrong International Holdings Limited (BVI). The bond's guarantor is, in turn, a wholly-owned subsidiary of Zhongrong International Trust Co., Ltd. ("ZIT"). The bond issued by ZIB 2015 was unconditionally and irrevocably guaranteed by ZIT with the benefit of a Keepwell deed and liquidity support and a deed of equity interest purchase undertaking by ZIT. ZIT (together with its subsidiaries, "Zhongrong Group") is a leading PRC-based trust company, with a presence in over 20 core cities in the PRC including Beijing, Shanghai, Shenzhen, Chengdu and also in Hong Kong. The principal business of Zhongrong Group is its trust business which offers a broad range of investments into diverse sectors and asset classes through innovative structures to a large client base that includes institutional investors, financial institutions, governments and high net worth individuals in the PRC. Zhongrong Group is privately held, with Jingwei Textile Machinery Co., Ltd being the company's largest shareholder at the time of writing, with a 37.47% stake. Jingwei Textile is listed on the Shenzhen Stock Exchanges (Stock Code: 666). According to its announcement on 28 November 2017, Jingwei Textile and partners plans to invest RMB2 billion in Zhongrong Group to enrich registered capital, expand asset scale, meet its net capital requirements, enhance its ability to resist risks, cooperate with strategic transformation, form new growth points of benefits, and help to expand its company's core competitiveness of financial businesses.

   Pursuant to Jingwei Textile's 2017 annual report, Zhongrong Group recorded total income of approximately RMB5,972.4 million and profit for the year of approximately RMB2,805.4 million. Zhongrong Group will seek for transition and innovation, continue to adjust and optimize the business structure, shrink the traditional financing business and focus on the capital market to expand its business.

   The Group believes that Zhongrong Group will strive to become a domestic first-class integrated asset management company and continue to improve its performance and the future prospect of Zhongrong Group is optimistic.

3. Please refer to Note 21(1) to the financial statements for the details of the bond issued by Huarong Finance 2017.

   Huarong Finance 2017, the issuer of the bond, is a wholly-owned subsidiary of China Huarong International Holdings Limited, which is in turn a wholly-owned subsidiary of China Huarong. For more details about China Huarong, please refer to note 1 as disclosed above in this section.

4. Please refer to Note 21(1) to the financial statements for the details of the bond issed by BEA.

   BEA, the issuer of the bond, was incorporated in 1918 and was the largest independent local bank in Hong Kong in terms of assets. The shares of BEA have been listed on the Main Board of the Stock Exchange since the 1930s (Stock Code: 00023). BEA's shares have been a constituent stock of the Hang Seng Index since 1984. BEA provides commercial and retail banking, financial and insurance services through its corporate banking, personal banking, wealth management, insurance & retirement benefits, treasury markets, China and international divisions. BEA's core business products and services include syndicated loans, trade finance, deposit taking, foreign currency savings, remittances, mortgage loans, consumer loans, credit cards, cyberbanking retail investment, retail investment and wealth management services, foreign exchange margin trading, services related to the mandatory provident fund scheme, internet banking services and general and life insurance. In addition, BEA is one of the first foreign banks to receive approval to establish a locally-incorporated bank in Mainland China.

   Pursuant to the annual results announcement of BEA for the year ended 31 December 2017, BEA recorded the total operating income of approximately HKD15,953 million and profit for the year of approximately HKD10,515 million. For 2018, BEA will further enhance asset quality, expand sources of fee income and carry out the third year of its cost-reduction program.

   The Group believes that with growing opportunities resulting from outbound investments by businesses in Mainland China, Hong Kong, and other markets, BEA will proactively explore and capture emerging business opportunities and achieve new heights and the Group is therefore optimistic about the future prospect of BEA.

5. In April and July 2015, the Group invested in a bond issued by Sparkle Assets Limited with a nominal amount of US$9,200,000 at a consideration of US$9,679,000 (equivalent to approximately RMB59.3 million). The bond has a coupon interest rate of 6.875% per annum with a maturity period of 7 years. On 30 May 2017, the Group sold the straight bond with a nominal amount of US$9,200,000 at a consideration of US$9,727,000 (equivalent to approximately RMB66.8 million). Please refer to Note 21(1) to the financial statements and the supplemental announcement in relation to the annual report of the company for the year ended 31 December 2016 for details of the bond.

(C) Convertible Bond

Name of the convertible bonds	Note	**Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017** (RMB'000)	**Changes in fair value** (RMB'000)	**Fair value at 31 December 2017** (RMB'000)	**Percentage of total available-for-sale investments at 31 December 2017**	**Percentage of the total assets of the Group as at 31 December 2017**
Standard Chartered PLC	1	1,318	1,871	19,948	5.4%	2.6%

Notes:

1. Please refer to Note 21(2) to the financial statements for the details of the convertible bond issued by Standard Chartered PLC.

   Standard Chartered PLC, the issuer of the convertible bond, is listed on the Main Board of the Stock Exchange (Stock Code: 02888) and London, Mumbai stock exchanges. Standard Chartered PLC (together with its subsidiaries, "Standard Chartered Group") is a leading international banking group.

   Pursuant to the annual results announcement of Standard Chartered Group for the year ended 31 December 2017, Standard Chartered Group recorded the operating income of approximately US$14,425 million and profit for the year of approximately US$1,268 million. Standard Chartered Group has made encouraging progress in transforming the Group, the path ahead is clear and Standard Chartered Group are now well positioned to drive sustainable profit growth across the markets. Standard Chartered Group remained focused on improving its service to its clients, generating strong returns for its investors, and contributing even more to the communities in which it operate. This will enable Standard Chartered Group to realise its full potential.

   The Group believes that Standard Chartered Group will improve its financial performance on the path to delivering sustainable better value and is therefore optimistic about the future prospect of Standard Chartered Group.

(D) Convertible Preferred Shares

Name of the convertible preferred Shares	Note	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017 (RMB'000)	Changes in fair value) (RMB'000)	Fair value at 31 December 2017 (RMB'000)	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
Industrial and Commercial Bank of China Limited ("ICBC")	1	2,028	275	34,249	9.3%	4.5%
China Cinda Asset Management Co., Ltd. ("Cinda")	2	451	105	9,612	2.6%	1.3%

Notes:

1. Pease refer to Note 21(3) to the financial statements for the details of the convertible preferred shares issued by ICBC.

   ICBC, the issuer of the convertible preferred shares, is listed on the Main Board of the Stock Exchange since 27 October 2006 (Stock Code: 1398) and Shanghai Stock Exchange. ICBC (together with its subsidiaries, "ICBC Group") has developed into the leading bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness and providing comprehensive financial products and services to corporate customers and personal customers.

   Pursuant to ICBC Group's third quarterly report for the nine months ended 30 September 2017, ICBC Group recorded operating income of approximately RMB506,265 million and net profit of approximately RMB229,086 million. By expanding market share via transformation and innovation, and deriving value from risk management, ICBC Group will spare no efforts to pursue healthy, sustainable development of ICBC Group while delivering better services to the customers and creating greater return to the shareholders and the society.

   The Group is optimistic about the international financial market and the performance of ICBC Group in the future.

2. Please refer to Note 21(3) to the financial statements for the details of the convertible preferred shares issued by Cinda.

   Cinda, the issuer of the convertible preferred shares, is listed on the Main Board of the Stock Exchange of Hong Kong Limited since 12 December 2013 (Stock Code: 1359). Cinda (together with its subsidiaries, "Cinda Group") is the leading AMC in China. Cinda Group's principal business segments include (i) distressed asset management, (ii) financial investment and asset management and (iii) financial services.

   Pursuant to Cinda Group's interim report for the six months ended 30 June 2017, Cinda Group recorded total income of approximately RMB60,610.3 million and profit for the period of approximately RMB8,562.4 million. Cinda Group will further reinforce the edges of its distressed asset business, optimize its business structure with a focus on the main business, highlight the development of specialization and characteristics of its subsidiaries and the development of differentiation of its branches.

   The Group is optimistic about the performance of Cinda Group in the future.

(E) Investment in Life Insurance Policies

	Note	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2017 (RMB'000)	Changes in fair value (RMB'000)	Fair value at 31 December 2017 (RMB'000)	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
Investment in life insurance policies	1	–	2,506	87,863	23.7%	11.5%

Notes:

1. Please refer to Note 21(4) to the financial statements for the details of the investments in life insurance policies.

   Pursuant to the annual performance review of the life insurance policies, the actual interest rate of each insurance policy for the first two years is 3.9% per annum. Considering the insurance nature of the life insurance policies, the historical performance of the life insurance policies and the clause regarding the guaranteed interest, the Group believes that the performance of the life insurance policies will be stable.

   There will be no interest income recognised in the consolidated profit or loss of the Group before the Group terminate the life insurance policies and the accumulated interests earned were reflected in changes in cash value of the life insurance policies.

(F) Unlisted Equity Investments

Company Name	Notes	Percentage of shareholdings at 31 December 2017	Dividend income recognised in consolidated statement of profit or loss for the year ended 31 December 2017 (RMB'000)	Carrying amount at 31 December 2017 (RMB'000)	Percentage of total available-for-sale investments at 31 December 2017	Percentage of the total assets of the Group as at 31 December 2017
APOLLO CAPITAL L.P. ("APOLLO")	1	18.5%	–	33,541	9.1%	4.4%
Xiamen eName Technology Co., Ltd.	2	2.0%	600	20,005	5.4%	2.6%
Ewan	3	4.54%	–	50,000	13.5%	6.6%
Others	4	–	–	25,395	6.9%	3.3%

Notes:

1. APOLLO is an unlisted limited partnership principally engaged in investment in companies which are primarily in the sectors of auto parts, new materials, electronic information, new energy, energy conservation, emission reduction and environmental protection to achieve earnings in the form of medium to long term capital appreciation.

   Pursuant to APOLLO's financial statements for the year ended 31 December 2017, APOLLO recorded revenue of approximately US$244,106 and net profit after tax of approximately US$134,429. APOLLO is holding its investments as at 31 December 2017 and did not dispose any of its investments for the year ended 31 December 2017 as it was expected to realise its investments at a later stage in order to enjoy a higher capital appreciation. There was no impairment made for any of its investments for the year ended 31 December 2017.

   The Group believes that APOLLO has sufficient capital and managed by experienced management team and the sectors it invest in have positive future and its future business prospect is positive and growing.

2. Xiamen eName Technology Co., Ltd. and its subsidiaries ("eName") is a company listed on China New Third Board (Stock Code: 838413) which principally engaged in domain related businesses and providing domain registration, transfer and transaction services for the Internet customers. It is a well-known domain service provider in China.

   Pursuant to the eName's preliminary unaudited annual results for the year ended 31 December 2017, eName is expected to record a profit attributable to owners of the parent ranged between RMB19 million to RMB22 million. eName will continue to develop and expand its domain related businesses and it is also committed to building a corporate brand service provider.

   The Group received the cash dividend of approximately RMB0.6 million in May 2017.

   On 20 September 2017, eName declared a stock dividend of two shares of common stock for every ten issued and outstanding shares of common stock held by shareholders as of 26 September 2017. The stock dividend has increased the number of issued and outstanding shares of common stock of eName from approximately 27.2 million to approximately 32.6 million.

   The Group is optimistic about the domain service and brand service market in China and the performance of eName in the future.

3. Ewan, one of the non-wholly owned subsidiaries of X.D. Network Inc. ("XD", an online game publishing and developing company and its shares are listed on China New Third Board (Stock Code: 833897)), is primarily engaged in developing and operating an emerging mobile game distribution platform, TapTap, which generates revenue from advertisement.

   Pursuant to XD's interim report for the six months ended 30 June 2017, Ewan recorded revenue of approximately RMB15.6 million and net loss after tax of approximately RMB27.3 million for the six months ended 30 June 2017. Ewan was still being in the early stages of its business development. With its rapidly growing user base, TapTap is expected to gain greater market share in mobile game distribution going forward.

   The Group believes that Ewan is a superior mobile game platform with a great number of high quality games and developers as well as a remarkable number of valuable gamers and it has become one of the major mobile game platforms in China has sufficient capital and managed by experienced management team and the sectors it invest in have positive future and its future business prospect is positive and growing. The Group is therefore optimistic about the future prospects of Ewan.

4. Others comprised seven (7) unlisted limited liability companies and none of these investments accounted for more than 1.3% of the total assets of the Group as at 31 December 2017.

There was no impairment made for any available-for-sale investment for the year ended 31 December 2017.

Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 16.6% as at 31 December 2017 and 14.5% as at 31 December 2016.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2017 and 2016:

	For the year ended 31 December		
	2017 (RMB'000)	2016 (RMB'000)	**Change %**
Land use rights	**–**	110,210	(100.0)
Property, plant and equipment	**9,324**	3,037	207.0
Total	**9,324**	113,247	(91.8)

Our capital expenditures comprised land use rights, property, plant and equipment, such as company vehicles for employees' use and leasehold improvement, and construction in progress. The total capital expenditures for the year ended 31 December 2017 were approximately RMB9.3 million as compared to RMB113.2 million for the previous year, decreasing by approximately RMB103.9 million which was primarily due to the payment of bidding price amounting to RMB107.0 million for the acquisition of a land use right as disclosed in the announcement of the Company dated 21 July 2016 and payment of deed tax amounting to approximately RMB3.2 million related to the land use rights during the year ended 31 December 2016 while there was no such payment in 2017. The decrease was partially offset by the increase in property, plant and equipment from approximately RMB3.0 million for the year ended 31 December 2016 to approximately RMB9.3 million for the year ended 31 December 2017 as a result of increase in purchase of company vehicles, office equipment and the leasehold improvements for our newly setup Shenzhen office and development team and the increase in construction costs from approximately RMB1.1 million for the year ended 31 December 2016 to approximately RMB3.6 million for the year ended 31 December 2017 for the preliminary phase of the construction of our R&D center and headquarters and capitalisation of amortisation of prepaid land lease payments.

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

On 11 May 2017, the Company, through Xiamen Youli, one of its indirect wholly-owned subsidiaries, entered into an investment agreement (the "Investment Agreement") together with XD and Xiamen G-bits, to invest in Ewan. Pursuant to the Investment Agreement, each of Xiamen Youli, XD and Xiamen G-bits injected RMB50.0 million in cash into Ewan, as a result of which Xiamen Youli, XD and Xiamen G-bits hold 4.54%, 52.09% and 4.54%, respectively of the equity interests in Ewan as enlarged by the capital contribution made pursuant to the Investment Agreement. XD is the controlling shareholder of Ewan before and after the Investment Agreement and Xiamen G-bits is a new investor to Ewan. The investment will not only strengthen the Group's game distribution network, but also offer a valuable opportunity for decent investment return in the future.

Save for those disclosed in this annual report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report. However, the Group will continue to identify new opportunities for business development.

Pledge of Assets

As at 31 December 2017, the bank loan of the Group amounting to HK$64.0 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value amounting to US$13.4 million.

Contingent liabilities and guarantees

As at 31 December 2017, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, we had 507 full-time employees, the majority of whom were based in Xiamen, the PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2017:

	Number of Employees	% of Total
Development	303	59.8
Operations	127	25.0
Administration	72	14.2
Sales and marketing	5	1.0
Total	507	100.0

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

The remuneration of Directors and the senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has adopted the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, Pre-IPO RSU Plan and Post-IPO RSU Plan as its long-term incentive schemes.

Foreign currency risk
In the year ended 31 December 2017, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

Interest rate risk
Other than interest-bearing bank deposits and the short-term bank loan, the Group has no other significant interest-bearing assets or liabilities. The Directors do not anticipate any significant impact on the interest-bearing bank deposits resulting from changes in interest rates, because the interest rates of bank deposits are not expected to change significantly. And the Directors also do not anticipate any significant impact on the short-term bank loan resulting from changes in interest rates, because the bank loan was a financial lever of the life insurance policies. Therefore, the Group has not adopted any hedging policy to mitigate interest rate risk.

Use of Net Proceeds from Listing
The net proceeds from the Global Offering were approximately HK$585.0 million, after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing, we have, and will continue to utilise the net proceeds from the Global Offering for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Corporate Social Responsibility
Our Group has sought to operate in a responsible, transparent and sustainable way. We commit to promoting the long term sustainability of the environment by advocating green office practices such as double-sided printing and copying, setting up recycling bins, installing energy efficient lighting system, growing plants in office and working to provide good air quality on the company premises and promoting the use of public transport and video confederating in replacement of business travel to reduce our carbon footprint. Our Group also improves employees' awareness of environmental protection and encourages them to bring their own plants for making the office green.

Our Group has adopted the 3Rs strategy in our waste management: Reduce, Reuse and Recycle, such as installing efficient water flushing system in the restrooms and perform regular check to prevent leakage.

Our Group is determined to review and improve its policies and practices of environmental protection from time to time to continuously contribute to making the earth a better planet.

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

Compliance with the Relevant Laws and Regulations
To the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This is the second Environmental, Social and Governance ("ESG") Report of Feiyu Technology International Company Limited ("Feiyu" or the" Company" or the "Group" or "us"). The report covers our ESG policies, approaches, objectives, performances and achievements during the period from 1 January to 31 December 2017 (the "Reporting Period"). The report is prepared according to the applicable disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (HKEX ESG Reporting Guide).

This report covers Feiyu's core business – namely provision of online game services in Mainland China, which contribute over 75% of the Group's revenue. Please refer to the "Corporate Governance Report" section included in our Annual Report 2017 for our practices regarding corporate governance.

We cherish every valuable opinion of our stakeholders. If you have any opinions about this report and our sustainability performances, please do not hesitate to send your feedback to IR@feiyu.com.

ABOUT FEIYU

Business Overview

We are a leading developer and operator of mobile and web games in China. Our signature games include Shen Xian Dao (神仙道), Carrot Fantasy (保衛蘿蔔), San Guo Zhi Ren (三國之刃).

用簡單創造精彩!

Marvelous Creative With Simple Way!

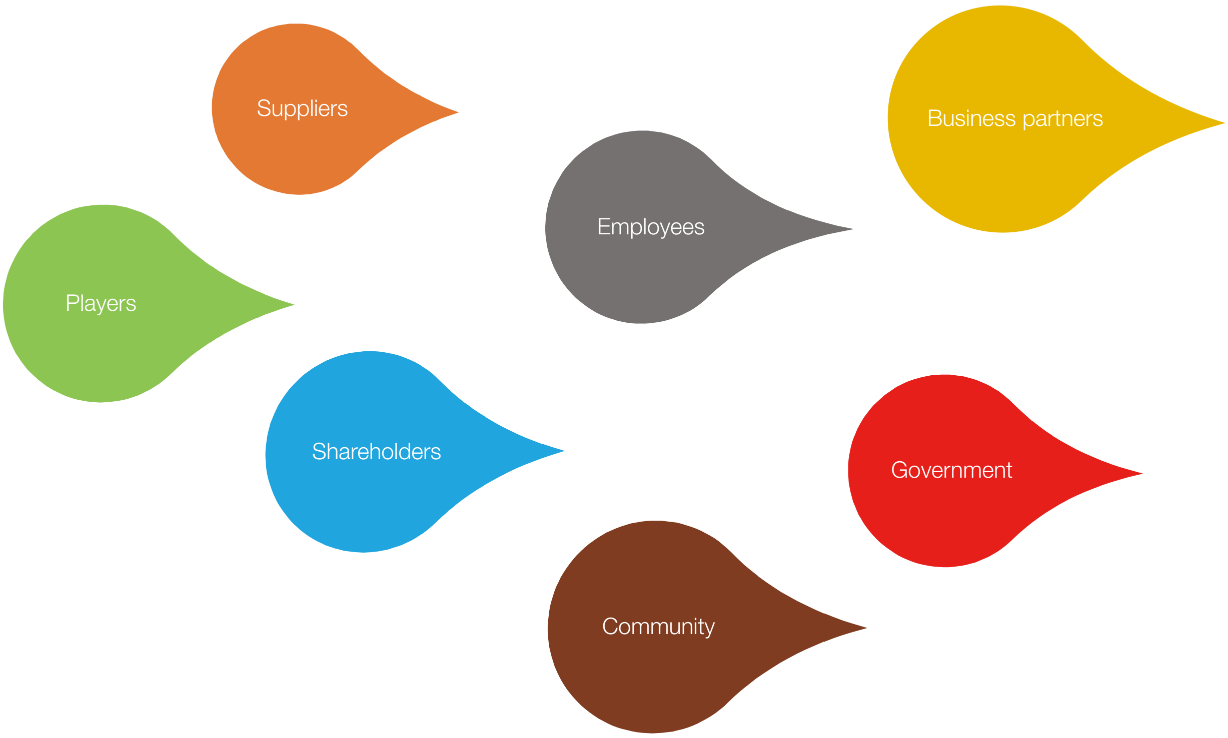
Awards and Recognitions

- China's High and New Technology Enterprise
- China's Top 100 Emerging Outsourcing Service Provider (中國服務外包成長型企業100強)
- The 11th Batch Fujian Province Cultural Industry Demonstration Zone (第十一批省級文化產業示範基地)
- Fujian Province Cultural Exports Key Cultivation Enterprise 2016-17 (福建省文化出口重點培育企業)
- Fujian Province Leading Enterprise in Science and Technology (福建省科技小巨人領軍企業)
- Xiamen Key Cultural Enterprise 2016-17
- Xiamen Key Software and Information Technology Service Enterprise
- Carrot Fantasy III: Best Mobile Game of the Year in Gold Gyro Award (金陀螺獎)
- Super Phantom Cat II: Favourite Mobile Game in Golden Plume Award (金翎獎)
- Super Phantom Cat II: Best Mobile Game 2017 in Tian Fu Awards (天府獎)
- Super Phantom Cat II: Most Popular Independent Game in Black Stone Glory (黑石獎)
- Super Phantom Cat II: Most Popular Mobile Game Top 10 and Most Popular Original Mobile Game Top 10 in China Game Industry Annual Conference 2017


2012.07
《Carrat Fantasy》
2009.01
Xiamen Guanghuan established
2011.05
《Shen Xian Dao》
2013.07
《Jiong Xi You》
2013.11
《Carrat Fantasy 2》
2014.03
Feiyu Technology established
2014.08
《San Guo Zhi Ren》
2014.12
Listed on HKEX
2016.06
《Carrat Fantasy 3》
2016.1
《Super phantom Cat 》
2017.08
《Super phantom Cat 2》
2017.09
《Ling Yao Ji》

COMMUNICATE WITH STAKEHOLDERS

To achieve sustainable growth and success, we build long-term relationships with our stakeholders and rest on our cooperation. Therefore, we place great emphasis on their views. The major parties of stakeholders we have identified are as follows:



We have developed multiple communication channels for our stakeholders to express their views on our work, including our official WeChat, QQ, Weibo, online forums, to name but a few, enabling us to gather their valuable opinions to improve our performances in business and sustainability strategies.

Sustainable

FEIYU

Fair Employer, Great Place to Work

Environmentally Friendly

Investment in creativity

Youth Support

Undertake Responsibilities

FAIR EMPLOYER, GREAT PLACE TO WORK

We create amazing games and bring excellent gaming experience to our players around the globe. Our people combine their passion, creativity, experience, knowledge, technology and countless hours of hard working, transforming interesting ideas into masterpiece. We are proud of them and commit to be a fair and equal employer, provide them a great place to work, to enable them focus on creation.

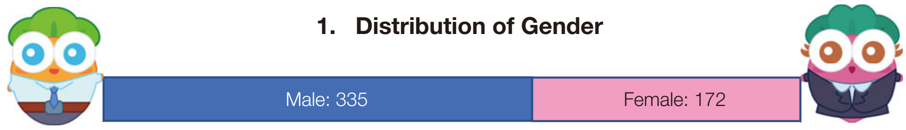
Equal recruitment principle

Feiyu is an equal employer, we are committed to hiring employees without considering their gender, nationality, race, age, family status and other factors irrelevant to their competencies, qualifications and passion in games.

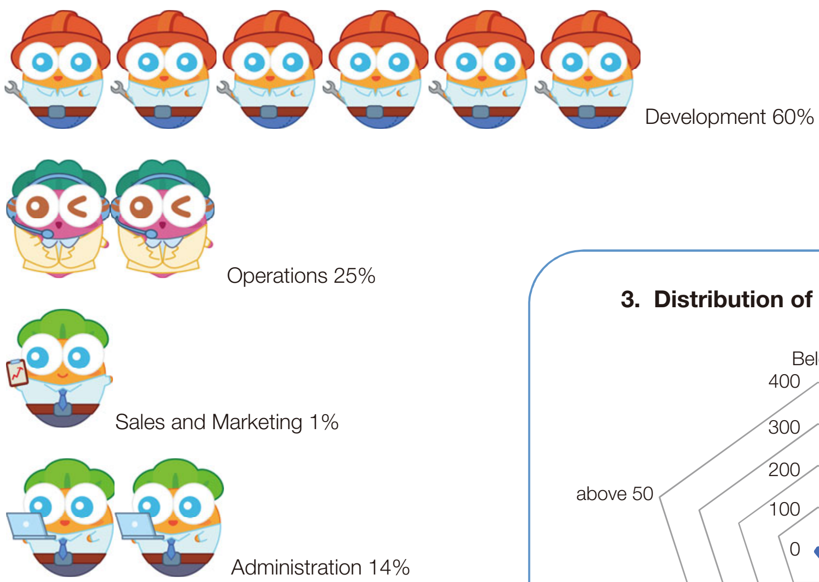
We conduct review regularly to ensure our Company complies with all relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

Employee Overview

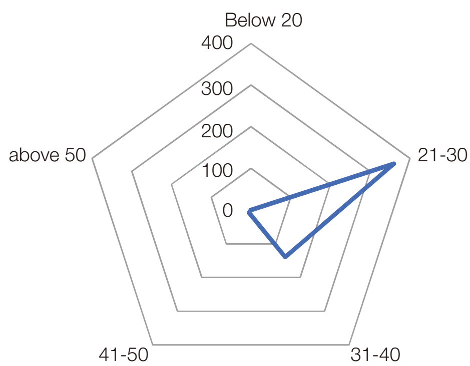
1. **Distribution of Gender**



2. **Distribution of employees by job type**



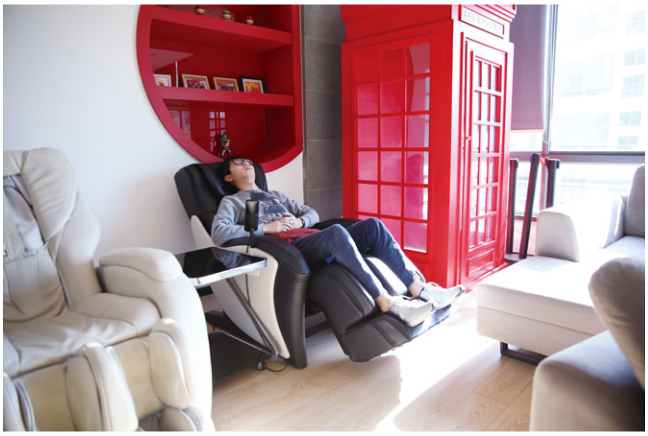
3. **Distribution of Employees by Age**



4. Distribution of Employees by Location

Attracting Talents

We hunger for creative, energetic and passionate talents to boost our game development. We also need technical and professional game cravers to keep improving our quality standards.



"Anti-forced and child labour" principle

We strictly prohibit the use of child labour and forced labour. Our human resources team verifies identity documents during the recruitment process and conduct regular inspection to ensure no forced or child labour exists. We also require all of our suppliers not to use forced and child labour. During the Reporting Period, no child or forced labour is identified and we fully comply with all relevant rules and regulations on child or forced labour.

We offer competitive remuneration package including 5-day work week, paid annual leave, performance bonus, mandatory provident fund scheme, social insurance, transportation allowance, training subsidies and long serving employees' awards. We also offer a wide range of staff facilities such as fitness centre and staff lounge to our staff and keep improving our working environment to make it as the best place for work.

Happy, Healthy and Safe

To enable our talents to focus on innovations, we strive our best to maintain their physical, mental and social well-being as well as protecting them from occupational hazards.

Healthy Hobbies	• Clubhouses • Sport teams • Fitness centre
Healthy Body	• Medical check-up • Chinese medical consultations • Massage chair
Healthy Meals	• Free lunch • Free snack • Free fresh fruits
Safe Workplace	• Smoke-free workplace • Staff lounge • Safety training • Fire drift
Happy Festivals	• Festive Parties • Festive Gifts
Happy Team	• Team-building activities • Incentive trips • Monthly activity subsidies • Internal online forum • Feiyu Community Fund "飛魚公益"
Happy Life	• Shuttle buses • Accommodation

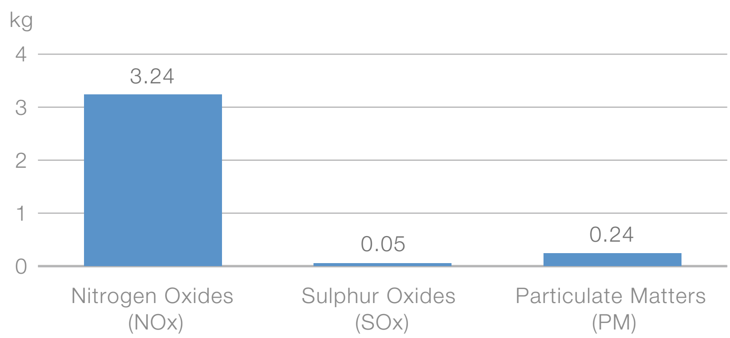
ENVIRONMENTALLY FRIENDLY

We endeavour to minimise our impacts to the environment due to energy and resource consumption. Environmentally friendly strategies are in place in our daily operations to conserve resources, energy and water. We are fully compliance with relevant laws and regulations regarding environmental protection in terms of emissions and waste handling.

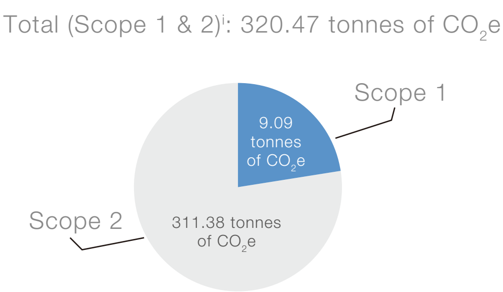
Reducing Emissions

Our carbon emissions and other air emissions manage focuses on the efficient operation, as well as carefully select an environmental friendly and high efficient supplier who manage our servers and data centre.

Air Emissions



GHG Emissions



i In accordance with The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard (Revised Edition) published by World Business Council for Sustainable Development and World Resources Institute, Scope 1 included direct emissions from operations that are owned or controlled by the Group, while Scope 2 included indirect emissions from the generation of purchased or acquired electricity consumed within the Group.

Video Conferencing

We actively promote the use of video conferencing across offices to replace business travel because emissions from vehicles such as aviation fuel contribute to a significant amount of carbon footprint. With video conferencing, greenhouse gas emissions can be reduced on a large scale.

Promote Green Transportation

We also actively promote the use of public transportation. We provide shuttle buses to reduce the use of private vehicles. We also encourage our staff to use the shared bikes available within the Software Park.

Waste Management

Our office creates domestic refuse during operation. We always advocate our colleagues to use wise and waste less. For example, we encourage our staff to bring their own reusable cutleries; select catering providers who use degradable lunch boxes and used glass bottles for employees' beverage will be recycled. We hope these measures can reduce the amount of waste and relieve the pressure on landfills.

Waste emissions

Total Waste Disposed to Landfill

121.24 tonnes

Total Waste Disposed to Landfill per floor area

12.63 kg/m²

Total Waste Collected for Recycling

3.23 tonnes

* The Group did not generate a significant amount of hazardous waste.

SAVING RESOURCES

Implementing waste reduction and conservation policies and measures within our daily operations are vital to alleviating our impact on the environment. Our initiatives to reduce the use of resources are adopted in several aspects, encompassing energy, water and paper[ii].

Energy Saving

Our servers and data centre are out-sourced to large sized service provider (such as Tencent) so as to achieve high level of energy efficiency. Our office consumes electricity mainly for lighting and air-conditioning. We installed energy efficient lighting system, air-conditioners and fridges and remind our staff to turn off lighting and air-conditioning in idled areas from time to time to minimise waste of energy.

Energy

Total consumption

475,214.44 kWh

Total consumption per floor area

49.50 kWh/m²

Electricity

443,524.70 kWh

LPG

1,653.74 kWh

Unleaded Petrol

30,036.00 kWh

[ii] Total packaging material used for finished products is not applicable to the Group's business.

Water Conservation

Our water consumption is for basic cleaning, washroom and staff catering facilities in our office and is not a material area of resource usage. We installed efficient water flushing system (including dual flush system) in our washrooms and perform regular checking to ensure no leakage to avoid wastage.

Water

Total consumption

5,118.82 m^3

Total consumption per floor area

0.53 m^3/m^2

Paperless Initiatives

We have been maintaining a low level of paper consumption. To minimise paper consumption, we encourage duplex printing and set a recycling box for paper reuse. On top of that, we promote electronical communication through email or intranet so as to lower the intensity of paper communication via letters, newsletters and pamphlets.

Green and Responsible Procurement

Feiyu has been committing itself to being a high quality, environmental friendly and responsible game developer. We hope our suppliers and business partners to operate in a consistent manner and demonstrate best practices in connection with environmental and social matters.

We established Supplier Code of Conduct and circulated it to our suppliers and business partners, indicating our expectations towards them in terms of anti-corruption, product and service quality, environmental protection and occupational health and safety. We assess new suppliers and existing suppliers regularly and conduct on-site inspections frequently, and discuss our inspection result with them and the needs of improvement so as to ensure consistence with our expectations towards them.

Our Supply Chain Management process:

Supplier Code of Conduct

Communicate our expectations and requirements to suppliers and business partners

↓

Supplier Assessment

Assess and select suppliers and business partners who meet our needs and requirements

↓

Site Inspection

Visit our suppliers' facilities and observe their actual process and environment

↓

Follow up

Discuss with management of our suppliers for on-going improvements

INVESTMENT IN CREATIVITY

Nurturing Future Elites

Every master was once a beginner. We proactively support our elites' growth through trainings and sharing sessions. We constantly provide trainings to our employees, equip them with adequate skills and knowledge to procedure quality work.

We always need to keep our thinking close to the youth. Therefore, we offer internship program and Fresh Feiyu Program ("魚苗計劃") every year to absorb new blood and make sure they adapt to our working environment and understand our company culture well.

Training Topics in 2017 include:

- Fresh Feiyu Program ("魚苗計劃")
- Sharing on Music Production
- Sharing session on San Guo Zhi Ren UI design
- Sharing on Technical Art
- Online Game Real-time Technique
- Mobile Game Market Analysis
- Introduction on Graphic Rendering and Case Sharing

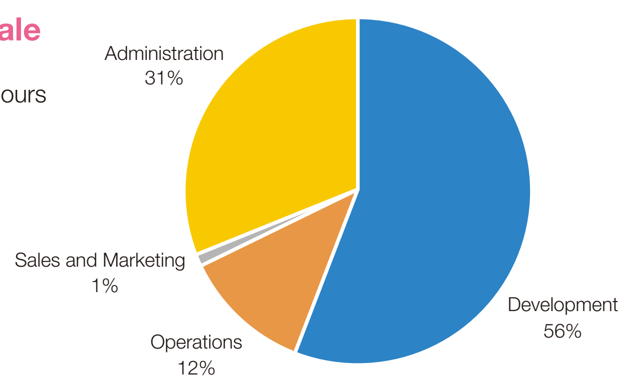
Male

5.68 hours

Female

4.57 hours

Percentage of training hours by category



48-HOUR GAME DEVELOPMENT COMPETITION

We have been organizing 48-hour game development competition since 2013. Candidates in the competition form teams and develop a game demo within 48 hours. It fosters the development of innovative game concepts and promotes collaboration and teamwork.

This year, the 48-hour game development competition was co-organized with China indie Game Alliance (CiGA) Game Jam Chengdu on 17-19 June 2017. More than 180 contestants, in which some were professional game developers and some were students being game enthusiasts, gathered together and indulged themselves in game creations.

At the beginning of the competition, the theme of the year was announced. Candidates then met their new partners, formed teams and started developing a testable game demo within 48 hours. They then presented their work to their peers for game testing and vote. Among 28 games, 3 were voted as the most popular games.

YOUTH SUPPORT

Transferring Love to Our Community

We give back to our society and support our next generation. Our Feiyu Community Fund initiates projects aiming at supporting youth development, especially education for students in rural areas.

We bring all manner of charity events in the limelight of our anniversary celebrations every year.

- During our 9th anniversary celebration, a charity sale was held in our Xiamen, Chengdu and Beijing offices with employees donating their personal items. In addition, we organized mooncake and t-shirt charity sales to raise fund for our Feiyu Community Fund. Revenue raised from the vending machines on each floor of our office also contributed to the fund to sponsor various community activities.

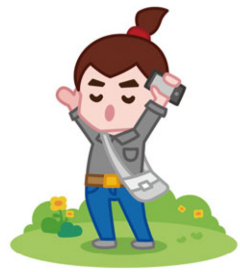
- During the Reporting Period, benefited from Feiyu Community Fund, we initiated Feiyu Student Aid Program by sponsoring the education of 40 high-school students in Yunnan Province, aiming at allowing students from different background to receive equal rights to education. The fund was also used to sponsor resources for a community event held by a charity organization in Xiamen, aiming to raise public awareness in youth mental health.

- In April 2017, we organized a donation event to encourage our employees, their friends and families to donate their unwanted clothes and sent to children in rural areas.

UNDERTAKE RESPONSIBILITIES

Health and Safety of players

We are highly concerned about the health and safety of our players. We deliver health and safety messages to our players in games and suggest taking rest after playing a certain period of time to relax their eye, arm and fingers.



Protect Personal Data Privacy

We take privacy and confidentiality of our user's data, such as players' account details and payment information, seriously. No sensitive personal data (such as ID card or credit card information) are stored on our server. Our employees cannot access player's information without authorization. Server rooms and other places storing player's information can only be reached via fingerprint authorization.

During the Reporting Period, we did not receive any complaints concerning breaches of client privacy and data loss.

Anti-corruption

Feiyu is committed to high standard of corporate governance, by complying with all relevant laws and regulations, aiming to achieve best commercial practice, promote integrity and work ethics, and take zero tolerance to fraud, negligence and corruption. We provide trainings on ethics and anti-corruption to our new employees and update our existing staff from time to time. We have also established an anonymous whistleblowing channel through which potential violation of our internal policies or illegal acts at all levels of the Group can be timely reported to the management and appropriate measures can be taken. During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group, its subsidiaries or its employees and we are not aware of any non-compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors during the year ended 31 December 2017 and up to the date of this annual report were:

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. SUN Zhiyan *(resigned with effect from 10 November 2017)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors
YAO Jianjun (**姚劍軍**), aged 36, is the founder of the Group and a controlling shareholder (as defined in the Listing Rules) of the Company. He joined the Group on 12 January 2009 and was appointed as Chairman, Chief Executive Officer and Executive Director on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as the chairman of Xiamen Guanghuan since 1 January 2011,director of Xiamen Feiyou since 24 June 2014, director of Xiamen Zhangxin Interactive Technology Co., Ltd. since 27 October 2014, director of Xiamen Yidou since 3 September 2014, director of Xiamen Feichang since 5 May 2015, director of Xiamen Xiyu since 27 May 2015, director of Xiamen Yufei Xingkong since 1 June 2015, director of Milin Feiyu since 10 July 2015, director of Xiamen Feiyu Wuxian since 24 July 2015, director of Jiaxi Global since 20 August 2015, director of Beijing Weian Haixing since 21 October 2015, director of Xiamen Hao Hao Wan since 4 January 2016, director of Shenzhen Feiyu Xingkong Technology Company Ltd. (深圳飛魚星空科技有限公司) which is the newly founded subsidiary of the Company since 23 February 2017 and director of Shenzhen Feiyu Digital Technology Co., Ltd. (深圳飛魚數字科技有限公司) which is the newly founded subsidiary of the Company since 10 July 2017.

Mr. Yao also acted as a director of Xiamen Plump Fish Cultural Media Co., Ltd. (廈門小魚飛飛文化傳媒有限公司) (a company focused on designing, producing and distributing cartoons, films, TV dramas, online dramas and other visual products) since 25 November 2015, director of Xiamen Zhangxin Internet (a company held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2017) since 18 December 2015, director of Xiamen Kangaroo Family Information Technology Company Ltd. (廈門袋鼠家信息科技有限公司) (a company developing parenting education app) since 4 January 2016, director of eName Technology Co.,Ltd. (廈門易名科技股份有限公司), a company providing domain name services and listed on China New Third Board, from 18 December 2015 to 10 December 2016, director of Ewan (Shanghai) Network Technology Co., Ltd. (易玩(上海)網絡科技有限公司) which is the new investee of the Company since 27 May 2017 and the general partner of Xiamen Xiao Yu Fei Fei Investment Partnership (limited partnership) since 17 October 2016.

Mr. Yao has more than 17 years of experience in the internet industry, including establishing and operating various websites and developing online games. He had founded a number of websites, including CNZZ.com (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), Chinaz.com (站長之家) (a website providing various technology and other services to PRC webmasters), Wo Ai Wo Wang (我愛我網), Yongchun Information Habour (永春信息港) and Changan City Gaming Community (長安城遊戲社區) (a website operating martial arts multiple user domain games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China.

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

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

CHEN Jianyu (**陳劍瑜**), aged 35, joined the Group on 31 December 2013 and was appointed as Executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen has also been director of Milin Feiyou since 1 July 2015, director of Beijing Bai Cai Tian Xia (previously named as Beijing Feiyu Wuxian) since 10 June 2015 and director of Beijing Feiyu Xingkong since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen also acted as director of Beijing Feiyu Interactive Cultural Media Co., Ltd. (北京飛娱互動文化傳媒有限公司, an indirect subsidiary of Xiamen Zhangxin Internet, (a company held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2017) since 5 April 2016, director of Guangzhou Popcorn Animation Technology Co., Ltd. (廣州市爆米花動畫科技有限公司, an animation company) since 26 August 2016, and director of Guangzhou Big Firebird Cultural Media Co., Ltd. (廣州大火鳥文化傳媒有限公司, an animation company) since 14 September 2017.

Mr. Chen has over 16 years of experience in the internet industry and has developed, or been responsible for developing, a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

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

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

BI Lin (**畢林**), aged 36, is a founder of the Group and one of the controlling shareholders of the Company. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Feiyu Hong Kong since 25 March 2014, director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Youli from 19 September 2011 to 24 February 2012, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangyu since 10 November 2014 and director of Xiamen Guangqu since 10 November 2014.

Mr. Bi also acted as director of Xiamen Chenxing Interactive Technology Co., Ltd. (廈門晨星互動信息科技有限公司), an associated company of the Group, since 25 October 2017.

Mr. Bi has over 9 years of experience in the internet industry. Since March 2014, he has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會). He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin and Mr. Lin Zhibin, both of whom are our Executive Directors and vice presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development.

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

LIN Jiabin (**林加斌**), aged 36, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin Jiabin also acts as a director of Xiamen Youli since 5 February 2012, primarily responsible for its game marketing and operations, and a director of Xiamen Fei Xiang Yue Investment Management Co., Ltd. (廈門飛享悅投資管理有限公司) since 9 August 2016.

Mr. Lin Jiabin has more than 13 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has been involved in its shareholder decision making processes since its inception in January 2009. In May 2003, he co-founded China Badminton Online (中羽在線網), a badminton sport internet portal in the PRC, with his brother, Mr. Lin Zhibin, who is also one of our founders, Executive Directors and vice presidents. In April 2007, Mr. Lin Jiabin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and Mr. Lin Jiabin served as an engineer in its technology department from April 2007 to January 2009. Prior to that, from December 2005 to November 2007, Mr. Lin Jiabin served as a website designer in Xiamen Wanshang Shengshi Network Co., Ltd. (廈門萬商盛世網絡有限公司).

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

Mr. Lin Jiabin is the younger brother of Mr. Lin Zhibin, an Executive Director and Vice President of the Company.

LIN Zhibin (**林志斌**), aged 36, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

Mr. Lin Zhibin has more than 13 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has served as its chief designer since its inception in January 2009. Mr. Lin Zhibin co-founded China Badminton Online (中羽在線網), a badminton internet portal in the PRC with Mr. Lin Jiabin, who is also one of our founders, Executive Directors and vice presidents. In April 2007, Mr. Lin Zhibin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Jiabin, both of whom are our Executive Directors and Vice Presidents, and served as its chief designer from its inception to January 2009, primarily responsible for product design, research and development. Prior to that, from July 2005 to December 2006, Mr. Lin served as website designer of Xiamen Advantage Interactive Network Technology Company Limited (廈門優勢互動網絡科技有限公司) (formerly known as Xiamen Youwang Technology Company Limited (廈門優網科技有限公司)), a website designing company.

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

Mr. Lin Zhibin is the elder brother of Mr. Lin Jiabin, an Executive Director and Vice President of the Company.

Independent Non-executive Directors

LIU Qianli (**劉千里**), aged 42, was appointed as an Independent Non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 14 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of China EDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of Main One Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

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

DIRECTORS AND SENIOR MANAGEMENT

LAI Xiaoling (**賴曉凌**), aged 42, was appointed as an Independent Non-executive Director on 17 November 2014. He is a member of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 14 years of experience in investment and business management. He has been a partner of Shunwei Capital (順為資本), a venture capital fund, since January 2018 and is primarily responsible for investment strategy, team formation and management and portfolio management. He has also been a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, since June 2013, primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management.

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

MA Suen Yee Andrew (**馬宣義**), aged 45, was appointed as an Independent Non-Executive Director on 17 November 2014. He is a member of the Audit Committee and the Nomination Committee.

Mr. Ma has over 19 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

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

Biographical Details of the Senior Management

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

CHEUNG Man Yu (**張文宇**), aged 43, joined the Group on 8 February 2014 and was appointed as Chief Financial Officer on 26 August 2014, and is responsible for the Group's overall financial reporting and management.

Mr. Cheung has over 19 years of experience in financial reporting, management and services. Since December 2012, he has been an independent non-executive director and a member of the audit committee of China LESSO Group Holdings Limited (中國聯塑集團控股有限公司), a manufacturer of plastic pipes and pipe fittings listed on the main board of the Stock Exchange (Stock Code: 2128). He also served as the vice general manager of ZTE Urban Digital Culture Media (Beijing) Co., Ltd. (中興都市數字文化傳媒(北京)有限責任公司), a media company, from December 2012 to January 2014, primarily focusing on its financial and internal control matters. From February 2011 to November 2012, Mr. Cheung was the vice president of China Forestry Holdings Co., Ltd. (中國森林控股有限公司), a forestry resource management and timber log processor operating in the PRC and listed on the main board of the Stock Exchange (Stock Code: 930), primarily focusing on its financial and internal control matters. Prior to that, from April 2004 to March 2011, Mr. Cheung worked as a vice president or director at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan Securities (Asia Pacific) Limited. Mr. Cheung worked as a manager at the audit department of Ernst & Young, an international accounting firm, from February 2000 to April 2004.

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

XU Yiqing (**許藝清**), aged 40, joined our Group on 10 December 2014, and was appointed as our vice president on the same day. She is responsible for human resources development and administrative and organisational management.

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

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

Yang Guangwen (**楊光文**), aged 37, joined our Group on 27 April 2015 and was appointed as our vice president on 28 April 2015. He is responsible for the setting up our Chengdu R&D center of our overall management of production planning, design and development of the games of the Group's Chengdu subsidiaries.

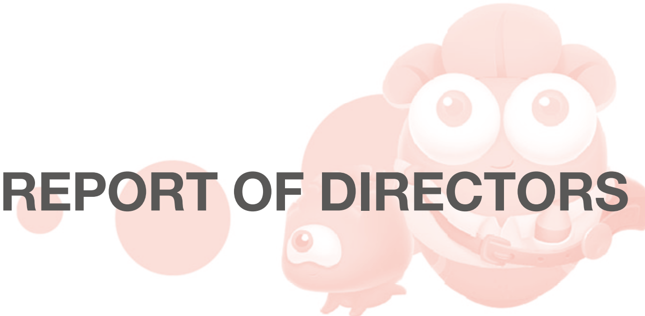
Mr. Yang has over 10 years of experience in business administration and the internet industry. From April 2014 to April 2015, Mr. Yang worked at Zhuhai Qianyou Technology Company Limited (珠海仟遊科技有限公司), a company which develops online games. He served as the Chief Operating Officer and was responsible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

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

Tu Qin (**塗琴**), aged 36, was appointed as our Chief Operating Officer with effect from 31 October 2017. She is responsible for the operations of the Group's web and mobile games.

Ms. Tu has over 10 years of experience in the internet industry. From August 2006 to March 2014, Ms. Tu worked in the web game distribution department of the interactive entertainment (騰訊互動娛樂) division of Tencent Holdings Limited, shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 700), which is a leading provider of Internet value-added services in China and was responsible for the management of the distribution of several popular web games. In March 2014, Ms. Tu founded Shenzhen Zhangxin Interactive Technology Co., Ltd. (深圳掌心互動科技有限公司) ("Shenzhen Zhangxin"), a game development and distribution company which was a 30%-owned associate of the Group since May 2015 and became a direct subsidiary of the Group after further acquisition of 21% interest in November 2017, where she served as its general manager since establishment and was responsible for its overall management and strategic planning. Since March 2014, Shenzhen Zhangxin has developed several mobile games, out of which an innovative elimination card game was successfully published in overseas markets and Ms. Tu has accumulated extensive experience in overseas distribution of games. In essence, Ms. Tu has devoted herself to the game development, game distribution and game operation in both mainland China and overseas markets and has achieved remarkable success.

Ms. Tu graduated from the National University of Defense Technology (中國人民解放軍國防科技大學) in December 2002, majoring in computer and application.



REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Details of the activities during the year ended 31 December 2017 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2017 if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors" of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2017, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 104 to 175 of this annual report.

FINANCIAL SUMMARY

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

USE OF PROCEEDS FROM IPO

The net proceeds from the Global Offering were approximately HK$585.0 million, after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the IPO/Listing. We have, and will continue to utilise the net proceeds from the IPO for the purposes consistent with those set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2017 are set out in the Consolidated Statements of Changes in Equity on page 108 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2017 are set out in Note 39 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB554,843,000 (as at 31 December 2016: RMB559,216,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2017 are set out in Note 13 to the financial statements.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 1 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for less than 10% of the Group's total revenue for the year ended 31 December 2017. As we have kept a good cooperation with our largest customer, Shenzhen Tencent Computer System Co., Ltd. ("Shenzhen Tencent"), for more than 3 years, approximately 7% of the total revenue for the year was derived from Shenzhen Tencent.

During the year ended 31 December 2017, the percentage of the aggregate purchases attributable to the Group's largest suppliers accounted for approximately 8.1% of the Group's cost of sales, among which the largest supplier accounted for approximately 2.5% of the Group's cost of sales.

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

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2017 are set out in Note 24 to the financial statements.

SHARE CAPITAL

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

CHARITABLE DONATIONS

During the year, there was no donation made by the Company (2016: RMB113,000) to Not-for-profit organisations.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS

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

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. SUN Zhiyan *(Chief Technology Officer) (resigned with effect from 10 November 2017)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

In accordance with article 84(1) of the Articles of Association, Messrs. LIN Jiabin, LIN Zhibin and BI Lin will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

THE BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 50 to 56 of this annual report.

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

Mr. YAO Jianjun, the Chairman, Chief Executive Officer and Executive Director, has agreed to reduce his salary and director's remuneration to HKD1.00 per annum commencing from 1 January 2018 until the Group recorded a net profit for a year in the future.

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

DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

Each of the Executive Directors has entered into a service agreement with the Company to renew the Director's appointment for a term of three years commencing from 17 November 2017 unless terminated by not less than three months' notice in writing served by either the Executive Director or the Company on the other.

Each of the Independent Non-executive Directors has entered into a letter of renewal of appointment with the Company for a term of three years commencing from 17 November 2017 unless terminated by not less than three months' notice in writing served by either the Independent Non-executive Director or the Company on the other.

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

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and Note 34 to the financial statements in this annual report. The annual remuneration of the Directors and senior management fell within the following bands:

Remuneration band (RMB)	Number of individuals in year 2017
Below 1,000,000	4
1,000,000–2,000,000	7
2,000,001–3,000,000	1
3,000,001–4,000,000	2
4,000,001–5,000,000	–
Over 5,000,000	–

REMUNERATION POLICY

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

The remuneration of the Directors and the senior management is determined on the basis of each individual's responsibilities, qualification, position, experience, performance, seniority and time devoted to the Group's business. They receive compensation in the form of salaries, bonuses, share options, RSUs, and other allowances and benefits-in-kind, including the Company's contribution to their pension scheme on their behalf. The remuneration policy of the Directors and the senior management is reviewed by the Remuneration Committee and approved by the Board.

In addition, the Group has adopted the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme, Pre-IPO RSU Plan and Post-IPO RSU Plan as its long-term incentive schemes. Details of the incentive schemes are set out under the sections headed "Reports of Directors – Pre-IPO Share Option Scheme", "Reports of Directors – Post-IPO Share Option Scheme", "Reports of Directors – Pre-IPO RSU Plan" and "Reports of Directors – Post-IPO RSU Plan" below and Note 27 to the financial statements.

During the year ended 31 December 2017, the Company considered the relationship with employees was well and the turnover rate is acceptable.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of these Independent Non-executive Directors. The Company considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2017.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares

Name of Director/ chief executive	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding[7] %
YAO Jianjun	Founder of a Discretionary Trust Interest of Controlled Corporation and Beneficial owner [1 and 2]	484,628,500	31.33
CHEN Jianyu	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 3]	256,739,000	16.60
BI Lin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 4]	127,470,000	8.24
LIN Jiabin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 5]	44,890,500	2.90
LIN Zhibin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 6]	44,890,500	2.90

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

2 These interests represented:

(a) 3,229,500 Shares held directly by Mr. Yao; and

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

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

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

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

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

7 The percentage is calculated on the basis of 1,546,901,955 Shares in issue as at 31 December 2017.

Save as disclosed above, as at 31 December 2017, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Long position in Shares

Name of Shareholder	Capacity	Number of Ordinary Shares held (long position)	Approximate percentage of shareholding[6] %
TMF (Cayman) Ltd.[1]	Trustee of the family trusts	1,032,909,955	66.77
YAO Holdings Limited[2]	Beneficial owner	481,399,000	31.12
Jolly Spring International Limited[2]	Interest in a controlled corporation	481,399,000	31.12
Mr. YAO Jianjun[3]	Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner	484,628,500	31.33
Fishchen Holdings Limited[4]	Beneficial owner	256,739,000	16.60
Honour Gate Limited[4]	Interest in a controlled corporation	256,739,000	16.60
Mr. CHEN Jianyu[4]	Founder of a discretionary trust Interest in a controlled corporation	256,739,000	16.60
BILIN Holdings Limited[5]	Beneficial owner	127,470,000	8.24
Rayoon Limited[5]	Interest in a controlled corporation	127,470,000	8.24
Mr. BI Lin[5]	Founder of a discretionary trust Interest in a controlled corporation	127,470,000	8.24

Notes:

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

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

3 These interests represented:

(a) 3,229,500 Shares held directly by Mr. Yao; and

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

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

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

6 The percentage is calculated on the basis of 1,546,901,955 Shares in issue as at 31 December 2017.

Other than as disclosed above, as at 31 December 2017, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the year ended 31 December 2017 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any body corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2017 and up to the date of this annual report.

IMPLEMENTATION OF THE DEED OF NON-COMPETITION

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

The Independent Non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2017. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a Controlling Shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2017 and up to the date of this annual report.

PRE-IPO SHARE OPTION SCHEME

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

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe for an aggregate of 105,570,000 Shares, which represented approximately 6.82% of the Shares in issue as at 31 December 2017, to senior management of the Group and other grantees. As at 31 December 2017, 17,190,000 Shares granted pursuant to the Pre-IPO Share Option Scheme, which represented approximately 1.11% of the Shares in issue as at 31 December 2017 and 1.12% of the Shares in issue as at the date of this annual report, remained unvested. As at 31 December 2016, 38,020,000 Shares granted pursuant to the Pre-IPO Share Option Scheme, which represented approximately 2.45% of the Shares in issue as at the date of the date of the Company's 2016 annual report, remained unvested.

The table below sets out details of the outstanding options granted to senior management and other grantees under the Pre-IPO Share Option Scheme and movements during the year ended 31 December 2017:

Number of Shares

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

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2017	Exercised during the year ended 31/12/2017	Cancelled/ Lapsed during the year ended 31/12/2017	Outstanding as at 31/12/2017
Senior management									
Mr. LIU Tao	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	1,130,000	854,000	(288,000)	(566,000)(1)	–
Other Grantees									
Aggregate of 117 other grantees	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	83,740,000	55,703,000	(10,187,500)	(3,075,000)(2)	42,440,500
Total					**105,570,000**				**49,513,000**

Notes:

(1) 565,000 share options granted to Mr. Liu Tao lapsed immediately upon his resignation as vice president of the Company due to his personal reasons on 28 February 2017 and 1,000 share options granted to Mr. Liu Tao expired due to the failure to exercise within the exercisable period after his resignation.

(2) 3,075,000 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2017.

(3) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$1.14.

POST-IPO SHARE OPTION SCHEME

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

Pursuant to the Post-IPO Share Option Scheme, the Company has granted options to subscribe for (i) 3,000,000 Shares to a senior management on 10 June 2015; (ii) 1,000,000 Shares to an eligible participant on 5 July 2016; (iii) 10,160,000 Shares to two senior management and other 10 eligible participants on 27 March 2017; (iv) 5,000,000 Shares to a senior management and an eligible participant on 15 May 2017; and (v) 15,000,000 Shares to a senior management on 13 November 2017. As at 31 December 2017, the total number of options granted under the Post-IPO Share Option Scheme was 34,160,000, which represented approximately 2.21% of the Shares in issue as at 31 December 2017. As at 31 December 2017, 5,200,000 options granted under the Post-IPO Share Option Scheme, which represented approximately 0.34% and 0.34% of the Shares in issue as at 31 December 2017 and the date of this annual report respectively, were vested to the named grantees.

The table below sets out details of the outstanding options granted to the grantees under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2017:

						Number of Shares				
Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Granted on the date of grant	Outstanding as at 1/1/2017	Exercised during the year ended 31/12/2017	Cancelled/ Lapsed during the year ended 31/12/2017	Outstanding as at 31/12/2017
Senior management										
Mr. YANG Guangwen	10/6/2015	25% of options on 10 June 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$3.934	HK$3.62	3,000,000[1]	3,000,000	–	–	3,000,000
Mr. YANG Guangwen	27/3/2017	50% of options on 30 June 2017 and 25% of options on 30 June 2018 and 2019 respectively	10 years from the date of grant	HK$1.256	HK$1.24	3,000,000[3]	–	–	–	3,000,000
Ms. XU Yiqing	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.256	HK$1.24	3,000,000[3]	–	–	–	3,000,000
Mr. CHEUNG Man Yu	15/5/2017	25% of options on 15 May 2018,2019,2020 and 2021 respectively	10 years from the date of grant	HK$1.10	HK$1.11	3,000,000[4]	–	–	–	3,000,000
Ms. TU Qin	13/11/2017	1/3 of options on 13 November 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.026	HK$1.00	15,000,000[5]	–	–	–	15,000,000

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Shares				
						Granted on the date of grant	Outstanding as at 1/1/2017	Exercised during the year ended 31/12/2017	Cancelled/ Lapsed during the year ended 31/12/2017	Outstanding as at 31/12/2017
Other Grantee										
1 other grantee	5/7/2016	25% of options on 31 December 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$1.634	HK1.57	1,000,000[(2)]	1,000,000	–	–	1,000,000
10 other grantees	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.256	HK$1.24	4,160,000[(3)]	–	–	(360,000)[(6)]	3,800,000
1 other grantee	15/5/2017	25% of options on 15 May 2018,2019,2020 and 2021 respectively	10 years from the date of grant	HK$1.10	HK$1.11	2,000,000[(4)]	–	–	–	2,000,000
Total						34,160,000				33,800,000

Notes:

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

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

(3) On 27 March 2017, 10,160,000 share options were granted to two senior management and other 10 eligible participants with exercise price of HK$1.256 per Share, which represents the highest of: (i) the closing price of HK$1.23 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 27 March 2017; (ii) the average of the closing price of HK$1.256 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

(4) On 15 May 2017, 5,000,000 share options were granted to a senior management and an eligible participant with exercise price of HK$1.10 per Share, which represents the highest of: (i) the closing price of HK$1.10 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 15 May 2017; (ii) the average of the closing price of HK$1.096 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

(5) On 13 November 2017, 15,000,000 share options were granted to a senior management with exercise price of HK$1.026 per Share, which represents the highest of: (i) the closing price of HK$0.99 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 13 November 2017; (ii) the average of the closing price of HK$1.026 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

(6) 360,000 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2017.

Summary of the share option schemes

		Pre-IPO Share Option Scheme	**Post-IPO Share Option Scheme**
1.	Purpose	To provide an incentive for participants and to reward their performance with rights which allow them to subscribe for Shares and to own the Company in proportion with their contribution to the Company or any of its subsidiaries.	To provide an incentive or reward for the participants for their contribution or potential contribution to the Company and/or any of its subsidiaries.
2.	Eligible Participants	Full-time employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of the Company or any of its subsidiaries who, in the absolute discretion of the Board, have contributed or will contribute to the Group.	Full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non – executive Directors) of the Company or any of its subsidiaries, and suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, has contributed or will contribute to the Group and whom the Board may in its absolute discretion select and think fit.

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
3. Maximum number of Shares	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 105,570,000, i.e. 8.80% and 6.86% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	The total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.75% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.
	No further option could be granted under the Pre-IPO Share Option Scheme.	The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time.
4. Maximum entitlement of each participant	The respective entitlement of each participant as granted on 17 November 2014	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer.
5. Option period	Options may be exercised at any time or times during the period within which the grantee may exercise the options, unless otherwise specified in his offer document.	The Board may in its absolute discretion specify conditions or performance targets at the time of grant of options which shall be satisfied by the grantee before his options may be exercised.
6. Exercise price	HK$0.55 per Share	Exercise price shall be the higher of: (1) the official closing price of the Shares as stated on the Stock Exchange's daily quotations sheets on the date of offer of option; (2) average of the official closing prices of the Shares stated on the Stock Exchange's daily quotation sheets for the 5 business days before the date of offer and (3) nominal value of a Share.
7. Scheme period	It shall be valid and effective from 17 November 2014 to the 5th anniversary of the Listing Date (i.e. 5 December 2019) (both dates inclusive).	It shall be valid and effective from 17 November 2014 to the 10th anniversary of the Listing Date (i.e. 5 December 2024) (both dates inclusive).

PRE-IPO RESTRICTED SHARE UNIT PLAN

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

Pursuant to the Pre-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 13,850,000 Shares, equivalent to approximately 0.90% of the Shares of the Company in issue as at 31 December 2017, to the senior management of the Group and other grantees. 13,850,000 RSUs were vested in full to the named grantees on 1 April 2015. As at 31 December 2017, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan.

POST-IPO RESTRICTED SHARE UNIT PLAN

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

On 27 March 2017, the Company has conditionally granted an aggregate of 14,000,000 RSUs to certain eligible participants to obtain an aggregate of 14,000,000 new Shares.

As approved by the Shareholders at the annual general meeting held on 26 May 2017, the maximum number of new Shares that may underlie awards of RSUs granted or to be granted by the Directors (including but not limited to the aggregate of 14,000,000 RSUs conditionally granted on 27 March 2017) (excluding RSUs that have been lapsed or been cancelled in accordance with the Post-IPO RSU Plan) is 45,000,000 Shares, which represented approximately 2.91% and 2.93% of the Shares in issue as at 31 December 2017 and the date of this annual report respectively.

The table below sets out details of the outstanding RSUs granted under the Post-IPO RSU Plan and movements during the year ended 31 December 2017:

				Number of RSUs			
Name	**Date of Grant**	**Vesting schedule**	**Number of RSUs granted**	**Outstanding as at 1/1/2017**	**Vested during the year ended 31/12/2017**	**Cancelled/ Lapsed during the year ended 31/12/2017**	**Outstanding as at 31/12/2017**
Other Grantees							
Aggregate of 6 other grantees	27/3/2017	50% of on 31 December 2017 and 50% on 31 December 2018	14,000,000	–	7,000,000	–	7,000,000

Summary of the restricted share unit plans

		Pre-IPO RSU Plan	Post-IPO RSU Plan
1.	Purpose	To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development of the Group.	Same as the Pre-IPO RSU Plan
2.	Eligible Participants	(i) Full-time employees or officers (including executive, non-executive and independent non-executive Directors) of the Company; (ii) Full-time employees of any subsidiaries and the PRC Operating Entities; (iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and (iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.	Same as the Pre-IPO RSU Plan
3.	Maximum number of Shares	The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e. 1.15% and 0.90% of the issued Shares as at 17 November 2014 and the date of this annual report respectively. No further award of RSUs could be granted under the Pre-IPO RSU Plan.	The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e. 3.75% and 2.93% of the issued Shares as at 17 November 2014 and the date of this annual report respectively. If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as of the date of approval of the refreshed limit.
4.	Term of the RSU Plan	Valid and effective for a period of 5 years from 17 November 2014.	Same as the Pre-IPO RSU Plan

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

MANAGEMENT CONTRACTS

Other than the service agreements and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2017.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2017 or at any time during the year ended 31 December 2017.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

According to the Administration of Foreign Invested Telecommunications Enterprises, which was issued on 11 December 2001 and subsequently amended on 10 September 2008 and 6 February 2016, foreign ownership of companies that provide value-added telecommunication services, including the operation of online games and mobile games, is limited to 50%. In addition, a foreign investor who invests in a value-added telecommunications business in the PRC must possess prior experience in operating value-added telecommunications businesses and a proven track record of business operations overseas (the "Qualification Requirement"). Currently, none of the applicable PRC laws, regulations or rules provides clear guidance or interpretation on the Qualification Requirement. Therefore, in order for the Company to be able to carry on its business in the PRC, the Group has entered into the Contractual Arrangements to enable the Company to exercise and maintain control over operations of the PRC Contractual Entities and to consolidate these companies' financial results into the Company's results under IFRSs as if they were wholly-owned subsidiaries of the Company.

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

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2017, expenditure amounting to RMB7,370,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2017, the Company had generated revenue from the overseas markets which amounted to RMB3,496,000.

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

Further, as advised by our PRC Legal Advisor, the Contractual Arrangements would not be deemed as void under PRC Contract Law as they do not fall within any of the five circumstances under Section 52 of the PRC Contract Law. Pursuant to Section 52 of the PRC Contract Law, a contract is void under any of the following circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and therefore damages the interest of the State; (ii) malicious collusion is conducted to damage the interest of the State, a collective unit or a third party; (iii) the contract damages the public interest; (iv) an illegitimate purpose is concealed under the guise of legitimate acts; or (v) the contract violates the mandatory provisions of the laws and administrative regulations. Our PRC Legal Advisor is of the opinion that the Contractual Arrangements do not fall within any of the five circumstances set forth in Section 52 of the PRC Contract Law, and in particular, our PRC Legal Advisor is of the view that the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance (iv) under the Section 52 of the PRC Contract Law and do not violate the provisions of the PRC Contract Law, the General Principles of the PRC Civil Law and other applicable PRC laws and regulations, except that (i) the arbitral tribunal has no power to grant injunctive relief, nor will it be able to order the winding up of the PRC Operating Entities pursuant to the current PRC laws; (ii) interim remedies or enforcement order granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognisable or enforceable in China.

Particulars of the PRC Operating Entities

Particulars of the PRC Operating Entities as at 31 December 2017 are presented as follows:

Name of the PRC Operating Entities	Type of legal entity/ place of establishment and operation	Registered owners as at 31 December 2017	Business activities
Xiamen Guanghuan	Limited liability company/PRC	Messrs. YAO Jianjun, BI Lin, LIN Zhibin, LIN Jiabin, CAI Wensheng, SUN Zhiyan, CHEN Jianyu and Ms. CHEN Yongchun hold 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% equity interest of Xiamen Guanghuan, respectively	Investment holding, game development and distribution (no actual business for the year ended 31 December 2017)
Xiamen Youli	Limited liability company/PRC	100% held by Xiamen Guanghuan	Operation and distribution of webgames, mobile games and PC games
Kailuo Tianxia	Limited liability company/PRC	100% held by Xiamen Guanghuan	Development and operation of carrot fantasy series mobile casual games
Xiamen Fei Xiang Yue Investment Management Co., Ltd. ("Xiamen Fei Xiang Yue")	Limited liability company/PRC	100% held by Xiamen Youli	Development of real estate

The Board considers the above PRC Operating Entities as significant to the Group in view that (i) Xiamen Youli and Kailuo Tianxia hold certain licences and permits that are essential to the operation of the business of the Group, such as the Internet Content Provider Licence, Value-added Telecommunication Operation Licence, Network Cultural Business Permit and the Internet Publication Licence; (ii) some important intellectual property rights, such as software copyright, trademarks of carrot fantasy series are held by Kailuo Tianxia; and (iii) Xiamen Fei Xiang Yue, being the newly setup project company, holds the land use right of a piece of land acquired by the Group on 21 July 2016 for the purpose of developing its R&D center in Xiamen, the PRC.

Revenue, net loss and total assets subject to the structured contracts under the Contractual Arrangements

Pursuant to the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyou and the PRC Operating Entities, the services provided by Xiamen Feiyou's wholly-owned subsidiaries to the PRC Operating Entities (including provision of technical support and product development services) amounted to an aggregate of approximately RMB9.3 million for the year ended 31 December 2017. The above transactions carried out during the year ended 31 December 2017 have been eliminated in the consolidated financial statements of the Group.

The revenue and net loss of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB45.2 million and RMB352.7 million for the year ended 31 December 2017, respectively. The total assets and total liabilities of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB297.8 million and RMB110.1 million as at 31 December 2017, respectively.

The Contractual Arrangements which were in place during the year ended 31 December 2017 are as follows:

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

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

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

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

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

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

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

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

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2017.

The extent to which the Contractual Arrangements relate to requirements other than the foreign ownership restrictions

In addition to the foreign ownership restrictions, investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017 (the "Catalogue"). The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

Reasons for using the Contractual Arrangements

As disclosed in the Prospectus, in order to achieve the Group's business purposes and be in line with common practice in industries in the PRC subject to foreign investment restrictions, we have adopted the Contractual Arrangements to exercise and maintain control over the operations of the PRC Operating Entities, obtain their entire economic benefits and prevent leakage of the assets and values of the PRC Operating Entities to their shareholders in the PRC.

Risks associated with the Contractual Arrangements and the actions taken by the Company to mitigate the risks

Risk associated with the Contractual Arrangements

(i) The Company principally rely on dividends and other distributions on equity paid by Xiamen Feiyou to fund any cash and financing requirements the Company may have. Any limitation on Xiamen Feiyou's ability to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our financial condition and our ability to conduct our business;

(ii) PRC regulations of loans to and direct investment in PRC entities by offshore holding companies may delay or prevent us from transferring funds to Xiamen Feiyou;

(iii) If the PRC government finds that the agreements that establish the structure for operating our China business do not comply with PRC laws and regulations, or if these regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish our interests in those operations;

(iv) Our Contractual Arrangements may not be as effective in providing operational control as direct ownership and the PRC Contractual Entities may fail to perform their obligations under our Contractual Arrangements;

(v) The Company may lose the ability to use and enjoy assets held by our PRC Operating Entities that are critical to the operation of our business if our PRC Operating Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding;

(vi) Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Company owe additional taxes could substantially reduce our combined net income and the value of your investment;

(vii) The Company may be subject to higher income tax rates and incur additional taxes as a result of the Contractual Arrangements, which may increase our tax expenses and decrease our net profit margin;

(viii) Relevant Shareholders may potentially have a conflict of interest with us, and they may breach their contracts with us or cause such contracts to be amended in a manner contrary to our interests;

(ix) The Company conduct a substantial portion of our business operation in the PRC through the PRC Operating Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws; and

(x) If the Company exercise the option to acquire equity ownership of the PRC Contractual Entities, the ownership transfer may subject us to substantial costs.

Mitigation actions taken by the Company

(i) Feiyu Hong Kong has been gradually building up a track record of business operations for the purpose of being qualified as a resident of Hong Kong in order to enjoy the preferential withholding tax treatment under the tax treaty with respect to dividends paid by Xiamen Feiyou to Feiyu Hong Kong.

(ii) Suitable management has been assigned to the PRC Operating Entities to report regularly to the Group in relation to major issues arising from implementation of the Contractual Arrangements and suitable reporting system in line with the Group's financial reporting practice in the PRC are also in place to ensure that the Group would have full access and control over the books and records of the PRC Operating Entities and to obtain financial information monthly to ensure proper financial record are kept.

(iii) Pursuant to the Exclusive Business Cooperation Agreement(s), in the event that one or more of the provisions of the agreement(s) are found to be invalid, illegal or unenforceable by the court and arbitral institution with competent jurisdiction in any aspect in accordance with any laws or regulations, the validity, legality or enforceability of the remaining provisions of the agreement(s) shall not be affected or prejudiced in any aspect. The parties shall negotiate in good faith to replace such invalid, illegal or unenforceable provisions with effective provisions that accomplish the intentions of the parties to the greatest extent permitted by law, and the economic effect of such effective provisions shall be as close as possible to the economic effect of those invalid, illegal or unenforceable provisions.

(iv) Pursuant to the Exclusive Business Cooperation Agreement(s), the Powers of Attorney and the Equity Interest Pledge Agreement(s), to the extent permitted by PRC laws, the arbitration tribunal may grant any remedies in accordance with the provisions of the aforementioned agreements and applicable laws of China, including preliminary and permanent injunctive relief (such as injunction against carrying out business activities, or to compel the transfer of assets), specific performance of contractual obligations, remedies concerning the equity interest or assets of the PRC Operating Entities and awards directing PRC Operating Entities to conduct liquidation. To the extent permitted by PRC laws, when awaiting the formation of the arbitration tribunal or otherwise under appropriate conditions, either Party may seek preliminary injunctive relief or other interlocutory remedies from a court with competent jurisdiction to facilitate the arbitration.

(v) Pursuant to the Exclusive Business Cooperation Agreement(s), the PRC Contractual Entities granted irrevocable and exclusive rights to Xiamen Feiyou, which entitles Xiamen Feiyou to elect to purchase, when permitted by the then applicable PRC laws, all or any part of the assets of the PRC Contractual Entities at lowest price permitted by PRC laws, by itself or through its appointee(s).

(vi) The Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities, provided that Xiamen Feiyou and the PRC Operating Entities implement the Contractual Arrangements in accordance with the terms of the structured contracts, unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis.

(vii) Although Xiamen Feiyou was not entitled any preferential income tax treatment during the year ended 31 December 2017, it recorded an accumulated loss which can be carried forward against future taxable income. Besides, Xiamen Feiyou will gradually building up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

(viii) The Group has worked closely and will continue to work closely with the PRC legal advisors and the management of the PRC Operating Entities on the update of rules and regulations of the PRC to monitor the continue compliance of the rules and regulations by the PRC Operating Entities as to their conduct of business and Contractual Arrangements. If our corporate and contractual structures were deemed by the competent authorities to be illegal, either in whole or in part, the Company will modify such structures to comply with regulatory requirements. And the Contractual Arrangements were narrowly tailored to minimize the potential conflict with relevant laws and regulations.

For details of the risks associated with the Contractual Arrangements, please refer to the section headed “Risk Factors – Risks relating to our Contractual Arrangements” in the Prospectus.

Material change in relation to the Contractual Arrangements

During the year ended 31 December 2017, there is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted.

Unwinding the Contractual Arrangements

The Company will unwind the Contractual Arrangements as soon as the laws allows the business of PRC Operating entities to be operated without the Contractual Arrangements.

However, for the year ended 31 December 2017, none of the Contractual Arrangements have been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Waiver from the Stock Exchange

As Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, SUN Zhiyan (resigned with effect from 10 November 2017), LIN Jiabin and LIN Zhibin are the Executive Directors, and where applicable, Controlling Shareholders or substantial Shareholders, they are the Company’s connected persons pursuant to Rule 14A.07 of the Listing Rules. Each of the PRC Contractual Entities is directly or indirectly controlled by the Controlling Shareholders and the Executive Directors, they are therefore each an associate of the Controlling Shareholders and the Executive Directors, and a connected person of the Company pursuant to Rule 14A.12(1)(c) of the Listing Rules.

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

Licence Agreement

On 29 March 2016, Xiamen Guangyu, Kailuo Tianxia and Xiamen Youli, all of which are indirect wholly-owned subsidiaries of the Company (collectively, the "Licensors") and Xiamen Plump Fish Cultural Media Co., Ltd., as the licensee (the "Licensee"), entered into a licence agreement (the "Licence Agreement") pursuant to which the Licensors have agreed to grant to the Licensee, among other things, an exclusive non-assignable right to use the Licensed Property in designing, producing and distributing the cartoons, films, TV dramas, online dramas and other visual products (the "Films") for a period commencing from 29 March 2016 to 31 December 2018 (both dates inclusive). The Licensed Property refers to the copyright and legal rights owned by the Licensors, which own trademarks, images, characters, characteristics, roles, texts, pictures, music, geographical characteristics, visual arts and technical information in relation to Shen Xian Dao (神仙道), Carrot Fantasy (保衛蘿蔔), and Jiong Xi You (囧西遊), respectively. In consideration of an exclusive non-assignable right granted by the Licensors to the Licensee pursuant to the Licence Agreement, the Licensee shall pay the Licensors the royalty in the amount equal to 8% of the sales revenue generated by the Films. As the Licensee is a direct wholly-owned subsidiary of Xiamen Zhangxin Internet, of which each of Mr. Yao Jianjun and Mr. Chen Jianyu, Executive Directors, directly held 50% equity interests as at the date of the Licence Agreement (29 March 2016) and held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen and Mr. Bi Lin as at 31 December 2017, the Licensee is an associate of Mr. Yao, Mr. Chen and Mr. Bi as at 31 December 2017 and hence, a connected person of the Company. Accordingly, the transactions contemplated under the Licence Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Please refer to the Company's announcement dated 29 March 2016 for details.

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

During the year ended 31 December 2017, there was no transaction incurred under the Licence Agreement.

Annual Review

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

The Independent Non-executive Directors have also reviewed and confirmed that:

1. the transactions carried out during the year ended 31 December 2017 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;

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

3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2017.

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

A copy of the auditor's letter on the continuing connected transactions of the Group for the year ended 31 December 2017 has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2017 are set out in Note 34 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed "Report of Directors – Non-exempt Continuing Connected Transactions") of the Company under the Listing Rules, the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

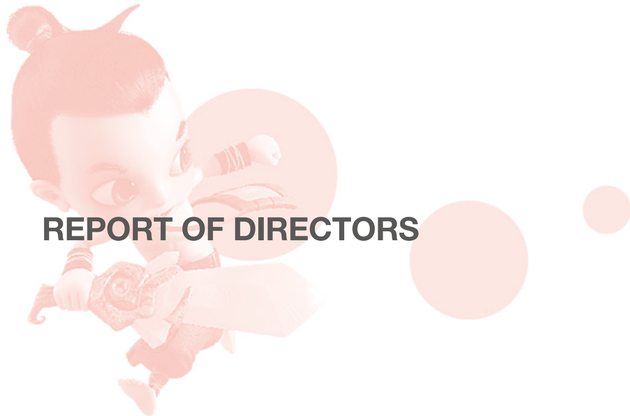
PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 2017.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2017.



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

During the year ended 31 December 2017, the Company repurchased a total of 48,879,000 Shares on the Stock Exchange at an aggregate price paid of HK$54,011,912.05 before brokerage and expenses pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on 26 May 2017.

Details of the share repurchase are as follows:

Month of repurchase	Number of shares repurchased	Price paid per Share Highest HK$	Price paid per Share Lowest HK$	Aggregate price paid (before brokerage and expenses) HK$
January 2017	12,178,500	1.16	1.01	13,137,585.20
February 2017	10,099,500	1.32	1.15	12,552,284.96
March 2017	4,441,500	1.23	1.16	5,397,240.09
April 2017	949,500	1.23	1.11	1,115,985.25
June 2017	631,500	0.98	0.94	602,100.00
July 2017	9,015,000	0.97	0.82	8,326,350.70
August 2017	582,000	1.00	1.00	582,000.00
September 2017	4,899,000	1.33	0.99	5,765,775.37
October 2017	2,700,000	1.21	1.11	3,111,570.00
November 2017	2,233,500	1.04	0.98	2,276,745.17
December 2017	1,149,000	1.00	0.96	1,144,275.31
Total	48,879,000			54,011,912.05

All the 48,879,000 repurchased Shares have been cancelled prior to 6 February 2018 and the issued share capital of the Company has been reduced by the nominal value of the repurchased Shares. The premium paid on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board with a view to benefiting the Shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2017.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2017 and up to the date of this annual report.

EVENTS AFTER THE REPORTING PERIOD

The Company entered into an exclusive licensing agreement with Meitu Networks (美圖網), as disclosed in the Company's announcement dated 21 March 2018, which allows the Company to operate, develop and manage the game businesses for Meitu Networks (美圖網) based on their game distribution platforms and channels. Leveraging Meitu Networks' (美圖網) tremendous and highly engaged user base, female users in particular, and the Company's extensive experience in game development and operation, the cooperation enables the Company uniquely positioned to seize the opportunity of the emerging female game market. Based on the cooperation established with Meitu Networks (美圖網), the Company is believed to be able to enhance its game distribution business, strengthen its game distribution network and broaden its game distribution revenue base.

BOARD COMMITTEES

The Company established each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 90 to 93 of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2017, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

FINAL DIVIDEND

The Board did not declare a final dividend for the year ended 31 December 2017 (the year ended 31 December 2016: Nil)

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 May 2018 to Monday, 28 May 2018, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Monday, 28 May 2018. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 21 May 2018 (as 22 May 2018 is a public holiday in Hong Kong).

AUDITOR

The Company has appointed Ernst & Young as the auditor of the Company for the year ended 31 December 2017. The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by Ernst & Young.

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

On behalf of the Board
YAO Jianjun
Chairman

Hong Kong, 26 March 2018

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2017, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

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

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2017. Details of the shareholding interests held by the Directors as at 31 December 2017 are set out on page 61 to 62 of this annual report.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2017.

THE BOARD

The Board currently comprises eight Directors, including five Executive Directors and three Independent Non-executive Directors:

Executive Directors	Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
	Mr. CHEN Jianyu
	Mr. BI Lin
	Mr. SUN Zhiyan *(resigned with effect from 10 November 2017)*
	Mr. LIN Jiabin
	Mr. LIN Zhibin
Independent Non-executive Directors	Ms. LIU Qianli
	Mr. LAI Xiaoling
	Mr. MA Suen Yee Andrew

Biographical details of the Directors are set out on pages 50 to 54 of this annual report.

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

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

During the year ended 31 December 2017, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the Independent Non-executive Directors are independent in accordance with guidelines set out in the Listing Rules.

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

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

FUNCTIONS AND RESPONSIBILITIES OF THE BOARD

Management function

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

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

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

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

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

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

Corporate Governance Functions

The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2017.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

BOARD MEETINGS

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

The Board has held 9 Board meetings during the year ended 31 December 2017 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2017 are set out below:

Name of the Directors	**Attendance/ Number of Board Meeting**
Executive Directors:	
Mr. YAO Jianjun	9/9
Mr. CHEN Jianyu	7/9
Mr. BI Lin	9/9
Mr. SUN Zhiyan *(resigned with effect from 10 November 2017)*	4/9
Mr. LIN Jiabin	9/9
Mr. LIN Zhibin	9/9
Independent Non-executive Directors:	
Ms. LIU Qianli	9/9
Mr. LAI Xiaoling	9/9
Mr. MA Suen Yee Andrew	9/9

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the executive directors. The Chairman met with the Independent Non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2017 for discussing the investment and strategic planning of the Group.

Practices and Conduct of Meetings

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

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

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

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

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2017.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Each of the Executive Directors has entered into a new service agreement with the Company for a term of three years commencing from 17 November 2017, subject to renewal, which may be terminated by either party by giving at least three month's written notice to the other.

Each of the Independent Non-executive Directors has entered into a letter of renewal of appointment with the Company for a term of three years commencing from 17 November 2017, which may be terminated by either party by giving at least three month's written notice to the other.

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in Note 8 to the financial statements of this annual report.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

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

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

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO in relation to inside information. A summary of training received by the Directors for the year ended 31 December 2017 according to the records provided by the Directors is as follows:

Name of the Directors	Attending relevant training sessions
Executive Directors:	
Mr. YAO Jianjun	✓
Mr. CHEN Jianyu	✓
Mr. BI Lin	✓
Mr. SUN Zhiyan *(resigned with effect from 10 November 2017)*	N/A
Mr. LIN Jiabin	✓
Mr. LIN Zhibin	✓
Independent Non-executive Directors:	
Ms. LIU Qianli	✓
Mr. LAI Xiaoling	✓
Mr. MA Suen Yee Andrew	✓

BOARD COMMITTEES

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

Nomination Committee

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2017 and the date of this annual report, the Nomination Committee comprised three members, the majority of whom were Independent Non-executive Directors. Mr. YAO Jianjun, who is the Chairman of the Board and Executive Director, served as the chairman of the Nomination Committee, and Ms. LIU Qianli and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as the committee members.

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

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

During the year ended 31 December 2017, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the Board Diversity Policy and its implementation, and assessed the independence of the independent non-executive Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2017 are set out below:

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

Remuneration Committee

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2017 and the date of this annual report, the Remuneration Committee comprised three members, the majority of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director, served as chairwoman of the Remuneration Committee, Mr. BI Lin, an Executive Director and Mr. LAI Xiaoling, an Independent Non-executive Directors, served as the committee members.

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

The Remuneration Committee held one meeting and passed four written resolutions during the year ended 31 December 2017 to review, inter alias, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; (iii) the granting of share options pursuant to the Post-IPO Share Option Scheme; (iv) the granting of the RSUs pursuant to the Post-IPO RSU Plan and (v) other matters related to the foregoing.

The attendance records of the Remuneration Committee meeting held during the year ended 31 December 2017 are set out below:

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

Details of the remuneration of each of the Directors for the year ended 31 December 2017 are set out in Note 8 to the financial statements of this annual report.

Audit Committee

The Board established the Audit Committee on 17 November 2014 with written terms of reference in accordance with code provision C.3.3 of the CG Code. The written terms of reference were updated on 28 December 2015 to comply with the changes relating to the risk management and internal control of the CG Code effective for the accounting period beginning on 1 January 2016, and are published on both the websites of the Company and HKEx. As at 31 December 2017 and the date of this annual report, the Audit Committee comprised three members, all of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director with appropriate professional qualifications required under Rule 3.10(2) and 3.21 of the Listing Rules, served as chairwoman of the Audit Committee, and Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as committee members. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience relating to accounting and financial management for discharge of their responsibilities.

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

The Audit Committee held three meetings during the year ended 31 December 2017 to review the annual results of the Group for the year ended 31 December 2016 and the interim results of the Group for the six months ended 30 June 2017 as well as the reports prepared by the external auditors relating to 2017 annual audit and interim review plans and accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company's compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2017 are set out below:

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

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

The Group's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee on 26 March 2018, and it considered that the said annual results are in compliance with the relevant accounting standards, rules and regulations, and appropriate disclosures have been duly made.

SHAREHOLDING INTEREST OF SENIOR MANAGEMENT MEMBERS

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 61 to 62 of this annual report.

REMUNERATION OF EXTERNAL AUDITOR

The statement of the external auditor of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditor's report on page 100.

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

During the year ended 31 December 2017, the total fee paid/payable to Ernst & Young in respect of audit services is set out below:

Items of auditor's service	**Amount (RMB'000)**
Audit service	2,350
Total	2,350

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 which give a true and fair view of the financial position of the Group as well as the operating results and cash flows during that year.

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

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

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

During the year ended 31 December 2017, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

In respect of the year ended 31 December 2017, the Board considered the risk management and internal control system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget were adequate.

Process used to identify, evaluate and manage significant risks

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

Main Features of Risk Management and Internal Control System

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

The Board

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

The Audit Committee

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

The management

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

The Internal Audit Function

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

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

Putting Forward Proposals at General Meetings

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

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

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

Convening an Extraordinary General Meeting by Shareholders

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

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

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

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

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

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

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

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

GENERAL MEETINGS

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

During the year ended 31 December 2017, one annual general meeting was held. The attendance record of each Director at the annual general meeting is set out below:

Name of the Directors	Attendance/ Number of annual general meeting
Executive Directors:	
Mr. YAO Jianjun	1/1
Mr. CHEN Jianyu	1/1
Mr. BI Lin	1/1
Mr. SUN Zhiyan *(resigned with effect from 10 November 2017)*	0/1
Mr. LIN Jiabin	1/1
Mr. LIN Zhibin	1/1
Independent non-executive Directors:	
Ms. LIU Qianli	1/1
Mr. LAI Xiaoling	0/1
Mr. MA Suen Yee Andrew	0/1
Company Secretary	
Mr. Cheung Man Yu	1/1

Pursuant to code provision A.6.7 of the CG Code, Independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the view of the Shareholders. Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, both being the Independent Non-executive Directors, were unable to attend the annual general meeting of the Company held on 26 May 2017 due to other business commitments.

The forthcoming annual general meeting of the Company will be held on 28 May 2018. The notice of the annual general meeting will be sent to the Shareholders at least 20 clear business days before the annual general meeting.

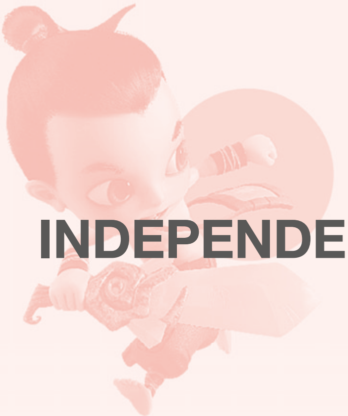
CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2017, the Company has not made any changes to its Memorandum and Articles of Association.

COMPANY SECRETARY

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

Mr. CHEUNG Man Yu has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2017.



INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 104 to 175, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of carrying amount of goodwill	
As at 31 December 2017, the Group reported RMB24,047,000 in goodwill as a result of previous acquisitions. In the current year an aggregated impairment charge of RMB300,477,000 was recognised in the consolidated statement of profit or loss, mainly in respect of the Carrot Fantasy cash-generating unit due to the underperformance in revenue generating activities of Carrot Fantasy series. On an annual basis the Group assesses the valuation of goodwill which relies on key assumptions and judgements made by the management concerning the estimated value of future cash flows, associated discount rates, and growth rates based on their view of future business prospects. The Group's disclosures about goodwill are included in Note 15 to the financial statements.	Our audit procedures included, among others, evaluating the forecast by comparing the forecasts with the historic performance of the respective CGUs and other supporting information. We have also involved our internal valuation expert to assist us in evaluating the assumptions and methodologies used by the management, in particular, discount rates and long term growth rates. We also assessed the adequacy of the Group's disclosures in the financial statements of the assumptions to which the outcome of the impairment test is most sensitive.
Fair value measurement of available-for-sale investments	
As at 31 December 2017, the Group had investments in various securities, of which RMB241,090,000 are stated at fair value and classified as available-for-sale investments. Fair value measurement can be a subjective area, especially for securities with model based valuation or with weak liquidity and price discovery. Valuation techniques for securities without active markets involve various assumptions regarding pricing factors. The use of different valuation techniques and assumptions could lead to significantly different estimates of fair value. The Group's disclosures of the key terms and fair value hierarchy of the investments are included in Note 21 and Note 36 to the financial statements.	We involved our internal valuation expert to assist us in evaluating the assumptions and methodologies used by the management in the determination of the fair value of the investments, in particular, discount rates and future cash flows generated by these available-for-sale investments. We also assessed the adequacy of the Group's disclosures in the financial statements of the key terms and the fair value hierarchy of the investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	131,697	188,133
Cost of sales		(38,843)	(57,184)
Gross profit		92,854	130,949
Other income and gains	5	29,865	99,692
Selling and distribution expenses		(40,099)	(11,507)
Administrative expenses		(64,327)	(60,951)
Research and development costs		(93,701)	(180,085)
Finance costs	7	(1,333)	(970)
Other expenses		(312,676)	(129,626)
Share of losses of associates	17	(218)	(771)
LOSS BEFORE TAX	6	(389,635)	(153,269)
Income tax credit/(expense)	10	855	(7,646)
LOSS FOR THE YEAR		(388,780)	(160,915)
Attributable to:			
Owners of the parent		(377,455)	(151,002)
Non-controlling interests		(11,325)	(9,913)
		(388,780)	(160,915)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic and diluted		RMB(0.24)	RMB(0.10)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
LOSS FOR THE YEAR		**(388,780)**	(160,915)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**11,372**	4,606
Reclassification adjustments for gains included in the consolidated statement of profit or loss	5	**(3,233)**	(1,105)
Exchange differences on translation of financial statements		**(14,985)**	20,718
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(6,846)**	24,219
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(6,846)**	24,219
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(395,626)**	(136,696)
Attributable to:			
Owners of the parent		**(384,431)**	(126,670)
Non-controlling interests		**(11,195)**	(10,026)
		(395,626)	(136,696)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**14,097**	13,376
Prepaid land lease payments	14	**103,552**	106,307
Goodwill	15	**24,047**	314,253
Other intangible assets	16	**1,801**	5,631
Investments in associates	17	**9,229**	17,668
Prepayments, deposits and other receivables	20	**9,236**	22,412
Available-for-sale investments	21	**370,031**	399,116
Deferred tax assets	18	**1,284**	2,387
Total non-current assets		**533,277**	881,150
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	19	**25,501**	54,268
Prepayments, deposits and other receivables	20	**45,642**	19,886
Other current assets		**2,432**	–
Restricted cash		**–**	680
Available-for-sale investment	21	**–**	7,139
Cash and cash equivalents	22	**155,397**	237,028
Total current assets		**228,972**	319,001
CURRENT LIABILITIES			
Other payables and accruals	23	**55,454**	90,353
Interest-bearing bank borrowing	24	**53,504**	55,655
Tax payable		**1,825**	6,228
Deferred revenue	25	**10,838**	11,594
Total current liabilities		**121,621**	163,830
NET CURRENT ASSETS		**107,351**	155,171
TOTAL ASSETS LESS CURRENT LIABILITIES		**640,628**	1,036,321

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		640,628	1,036,321
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	–	450
Deferred revenue	25	4,940	10,097
Total non-current liabilities		4,940	10,547
Net assets		635,688	1,025,774
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	1	1
Share premium	26	490,934	504,719
Treasury shares	26	(2,906)	(8,394)
Reserves	28	150,023	530,959
		638,052	1,027,285
Non-controlling interests		(2,364)	(1,511)
Total equity		635,688	1,025,774

Yao Jianjun
Director

Chen Jianyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits (accumulated losses) RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	1	490,051	11,779	76,405	353,337	(18,419)	14,843	150,006	(5,090)	1,072,913	(2,470)	1,070,443
Loss for the year	–	–	–	–	–	–	–	(151,002)	–	(151,002)	(9,913)	(160,915)
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	3,501	–	–	–	3,501	–	3,501
Exchange differences on translation of financial statements	–	–	–	–	–	–	20,831	–	–	20,831	(113)	20,718
Total comprehensive loss for the year	–	–	–	–	–	3,501	20,831	(151,002)	–	(126,670)	(10,026)	(136,696)
Distribution to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	6,132	6,132
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	4,853	4,853
Issue of shares (note 34)	–	53,590	–	–	–	–	–	–	–	53,590	–	53,590
Repurchase of shares	–	–	–	–	–	–	–	–	(30,501)	(30,501)	–	(30,501)
Cancellation of shares	–	(27,197)	–	–	–	–	–	–	27,197	–	–	–
Equity-settled share-based payment expenses	–	–	–	89,463	–	–	–	–	–	89,463	–	89,463
Exercise of share options	–	28,012	–	(19,785)	–	–	–	–	–	8,227	–	8,227
Appropriation to statutory reserves	–	–	100	–	–	–	–	(100)	–	–	–	–
2015 final dividend	–	(39,737)	–	–	–	–	–	–	–	(39,737)	–	(39,737)
At 31 December 2016	1	504,719	11,879*	146,083*	353,337*	(14,918)*	35,674*	(1,096)*	(8,394)	1,027,285	(1,511)	1,025,774

Continued/…

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled share-based payment reserve RMB'000	Other reserves RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Treasury shares RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	1	504,719	11,879	146,083	353,337	(14,918)	35,674	(1,096)	(8,394)	1,027,285	(1,511)	1,025,774
Loss for the year	–	–	–	–	–	–	–	(377,455)	–	(377,455)	(11,325)	(388,780)
Other comprehensive income for the year:												
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	–	8,139	–	–	–	8,139	–	8,139
Exchange differences on translation of financial statements	–	–	–	–	–	–	(15,115)	–	–	(15,115)	130	(14,985)
Total comprehensive loss for the year	–	–	–	–	–	8,139	(15,115)	(377,455)	–	(384,431)	(11,195)	(395,626)
Distribution to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	2,448	2,448
Acquisition of a subsidiary (note 29)	–	–	–	–	–	–	–	–	–	–	2,575	2,575
Issue of shares (note 34)	–	11,915	–	–	–	–	–	–	–	11,915	–	11,915
Acquisition of non-controlling interest	–	–	–	–	(577)	–	–	–	–	(577)	577	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	4,742	4,742
Repurchase of shares	–	–	–	–	–	–	–	–	(47,205)	(47,205)	–	(47,205)
Cancellation of shares	–	(52,693)	–	–	–	–	–	–	52,693	–	–	–
Equity-settled share-based payment expenses	–	–	–	25,685	–	–	–	–	–	25,685	–	25,685
Exercise of share options and RSU	–	26,993	–	(21,613)	–	–	–	–	–	5,380	–	5,380
Appropriation to statutory reserves	–	–	2,061	–	–	–	–	(2,061)	–	–	–	–
At 31 December 2017	1	490,934	13,940*	150,155*	352,760*	(6,779)*	20,559*	(380,612)*	(2,906)	638,052	(2,364)	635,688

* These reserve accounts comprise the consolidated reserves of RMB150,023,000 (2016: RMB530,959,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(389,635)**	(153,269)
Adjustments for:			
Finance costs	7	**1,333**	970
Interest income	5	**(11,230)**	(14,424)
Dividend income from available-for-sale investments	5	**(600)**	–
Other compensation expenses	6	**2,448**	6,132
Depreciation of property, plant and equipment	13	**6,106**	7,828
Amortisation of intangible assets	16	**3,830**	21,303
Recognition of prepaid land lease payments	6	**2,525**	1,148
Gain on disposal of items of property, plant and equipment	6	**(211)**	(32)
Loss on disposal of a subsidiary	6	**5,808**	–
Fair value loss on remeasurement of existing interests upon business combination	6	**665**	–
Equity-settled share-based payment expenses	6	**25,685**	89,463
Fair value gains, net:			
Available-for-sale investments (transfer from equity on disposal)	5	**(3,233)**	(1,105)
Loss/(gain) on fair value change of contingent consideration	6	**495**	(75,584)
Share of losses of associates	17	**218**	771
Impairment of an investment in an associate	17	**–**	3,512
Impairment of property, plant and equipment	13	**995**	–
Impairment of other receivable	6	**3,000**	–
Impairment of goodwill	15	**300,477**	107,754
Impairment of other intangible assets	16	**–**	9,583
		(51,324)	4,050
Decrease/(increase) in accounts receivable and receivables due from third-party game distribution platforms and payment channels		**29,099**	(741)
Increase in prepayments, deposits and other receivables		**(16,979)**	(19,381)
(Decrease)/increase in other payables and accruals		**(25,394)**	29,306
Decrease/(increase) in restricted cash		**680**	(680)
Increase in other current assets		**(2,432)**	–
(Decrease)/increase in deferred revenue		**(6,574)**	12,656
Cash (used in)/generated from operations		**(72,924)**	25,210
Income tax paid		**(2,895)**	(7,419)
Net cash flows (used in)/from operating activities		**(75,819)**	17,791

Continued/…

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows (used in)/from operating activities		(75,819)	17,791
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		20,834	14,991
Dividends received from available-for-sale investments		600	–
Purchases of items of property, plant and equipment		(9,094)	(2,692)
Purchase of prepaid land lease		–	(110,210)
Proceeds from disposal of items of property, plant and equipment		1,749	359
Purchase of available-for-sale investments		(399,053)	(539,205)
Proceeds from disposal of available-for-sale investments		422,868	472,581
Deposit transferred to an account in a domestic securities company		(611)	–
Deposit for land lease payments		–	(10,700)
Acquisition of a subsidiary	29	1,005	(6,716)
Disposal of a subsidiary		(18)	–
Investments in associates		–	(5,000)
Proceeds from disposal of an associate		–	355
Net cash flows from/(used in) investing activities		38,280	(186,237)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		5,674	8,153
Addition of bank loans		677,153	634,544
Repayment of bank loans		(676,072)	(633,551)
Repurchase of shares		(47,205)	(31,288)
Interest paid		(156)	–
Dividends paid		–	(39,737)
Net cash flows used in financing activities		(40,606)	(61,879)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(78,145)	(230,325)
Cash and cash equivalents at beginning of year		237,028	463,897
Effect of foreign exchange rate changes, net		(3,486)	3,456
CASH AND CASH EQUIVALENTS AT END OF YEAR		155,397	237,028
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	22	155,397	237,028

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2014 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at the offices of Conyers Trust Company (Cayman) Ltd. at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Group is principally engaged in the operation and development of web and mobile games in Mainland China. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Ltd. (the "Hong Kong Stock Exchange") on 5 December 2014.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Feiyu Technology Hong Kong Ltd.	Hong Kong	HK$1	25 March 2014	100	–	Investment holding
Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan")	PRC/ Mainland China	RMB10,000,000	12 January 2009	–	100	Game development and distribution
Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli")	PRC/ Mainland China	RMB100,000,000	19 September 2011	–	100	Game development and distribution
Xiamen Yidou InformationTechnology Co., Ltd. ("Xiamen Yidou")	PRC/ Mainland China	RMB5,000,000	11 June 2012	–	100	Game development and distribution
Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia")	PRC/ Mainland China	RMB10,000,000	3 May 2012	–	100	Game development and distribution
Xiamen Feiyou Information Technology Co., Ltd.*	PRC/ Mainland China	US$5,000,000	24 June 2014	–	100	Investment holding
Xiamen Zhangxin Interactive Technology Co., Ltd. ("Xiamen Zhangxin")	PRC/ Mainland China	RMB100,000	27 October 2014	–	100	Game development and distribution
Xiamen Guangyu Investment Management Co., Ltd. ("Xiamen Guangyu")	PRC/ Mainland China	RMB100,000	10 November 2014	–	100	Game development and distribution
Xiamen Feixin Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/ Mainland China	RMB1,000,000	13 November 2014	–	100	Game development and distribution
Xiamen Veewo Games Co., Ltd. ("Xiamen Veewo")	PRC/ Mainland China	RMB1,350,000	29 February 2016	–	51	Game development and distribution
Veewo Limited	Hong Kong	HKD10,000	12 January 2012	–	51	Game development and distribution

The above subsidiaries were not audited by Ernst & Yong, Hong Kong or another member firm of the Ernst & Yong global network.

1. CORPORATE AND GROUP INFORMATION (Continued)

*Xiamen Feiyou Information Technology Co., Ltd. is registered as a wholly-foreign-owned enterprise under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

2.1 BASIS OF PREPARATION (Continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12 Improvements*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 31 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group has determined that, due to the good historical collectability of its accounts receivable and receivables due from third-party game distribution platforms and payment channels and other receivables, the provision for impairment will be nil upon the initial adoption of the standard.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have a significant impact, when applied, on the consolidated financial statements of the Group, except for additional disclosures to be included.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16, issued in May 2016, replaces IAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 on from 1 January 2019. The Group and is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 32 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB12,674,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

So far, the Group considered that the other issued but not yet effective IFRSs may result in changes in accounting policies and the Group is in the process of assessing the impact of these new and revised standards on the Group's results and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Office equipment	19%-32%
Motor vehicles	19%-24%
Leasehold improvements	over the shorter of the lease terms and 20%-50%

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

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

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

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

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

Loans and receivables

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

Available-for-sale financial investments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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

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

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

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

Derecognition of financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

Revenue recognition

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

(a) *Game operation*

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(a) *Game operation (Continued)*

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

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

(b) *Online game distribution*

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

(c) *Licensing income*

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

(d) *Advertising revenue*

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

(e) *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

(f) *Technical service income*
The Group derives revenue from technical services. Technical service revenue is recognised when technical support services are rendered.

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

(h) *Dividends*
Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Share-based payments

Equity-settled share-based payments

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payments (Continued)

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

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

Other share-based payments

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

Other employee benefits

Pension scheme

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

Pension obligations

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

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

Housing benefits

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

Termination benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB24,047,000 (2016: RMB314,253,000). Further details are given in note 15.

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

Estimation uncertainty (Continued)

Fair value measurement of available-for-sale investments

The Group carries its available-for-sale investments at fair value with changes in the fair value recognised in other comprehensive income. The Group obtains independent valuation at least annually for the investment that is not traded in an active market. At the end of each reporting period, management updates their assessment of the fair value of available-for-sale investments, taking into account the most recent independent valuation.

4. OPERATING SEGMENT INFORMATION

The Group focuses primarily on the operation and development of web and mobile games in Mainland China. Information reported to the Group's chief operating decision maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Information about geographical areas

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

Information about a major customer

No revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue for the year ended 31 December 2017 (2016: RMB34,084,000).

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents net invoiced value of goods sold, after allowances for returns and trade discounts; the income from services rendered after allowances for chargebacks, and the royalties derived from licensing agreements.

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

Revenue	**2017 RMB'000**	2016 RMB'000
Online web and mobile games	**106,761**	154,610
Single-player games	**6,081**	5,876
Game operation	**112,842**	160,486
– Gross basis	**36,766**	5,173
– Net basis	**76,076**	155,313
Online game distribution	**2,916**	1,886
Licensing income	**9,362**	14,503
Advertising revenue	**5,980**	11,064
Sale of goods	**336**	–
Technical service income	**261**	194
	131,697	188,133
Other income		
Government grants	**14,151**	8,220
Interest income	**11,230**	14,424
	25,381	22,644
Gains		
Fair value gains, net:		
Available-for-sale investments (transfer from equity on disposal)	**3,233**	1,105
Dividend income from available-for-sale investments	**600**	–
Gain on fair value change of contingent consideration	**–**	75,584
Gain on disposal of items of property, plant and equipment	**447**	226
Others	**204**	133
	4,484	77,048
	29,865	99,692

6. LOSS BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000
Channel costs		11,380	2,071
Rental fee (including servers)		10,926	12,065
Depreciation	13	6,106	7,828
Amortisation of intangible assets	16	3,830	21,303
Recognition of prepaid land lease payments		2,525	1,148
Advertising expenses		26,825	10,667
Auditor's remuneration		2,350	2,650
Impairment of goodwill*	15	300,477	107,754
Impairment of other intangible asset*	16	–	9,583
Impairment of an investment in an associate*	17	–	3,512
Impairment of other receivable*	20	3,000	–
Impairment of property, plant and equipment*		995	–
Loss on disposal of a subsidiary*		5,808	–
Fair value loss on remeasurement of existing interests upon business combination*		665	–
Loss/(gain) on fair value change of contingent considerations*		495	(75,584)
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Salaries and wages		90,049	103,513
Pension scheme contributions		13,408	14,830
Share-based payment expenses		25,685	89,463
Other compensation expenses		2,448	6,132
		131,590	213,938
Foreign exchange losses*		656	6,956
Gain on disposal of items of property, plant and equipment, net		(211)	(32)

* The impairment of goodwill, the impairment of other intangible asset, the impairment of an investment in an associate, the impairment of other receivable, the impairment of property, plant and equipment, the loss on disposal of a subsidiary, the fair value loss on remeasurement of existing interests upon business combination, the loss on fair value change of contingent considerations, the foreign exchange losses and the loss on disposal of a subsidiary are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 RMB'000	2016 RMB'000
Interest on a bank loan	**1,333**	970

8. DIRECTORS' REMUNERATION

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

	Group	
	2017 RMB'000	2016 RMB'000
Fees	**3,833**	3,354
Other emoluments:		
Salaries, allowances and benefits in kind	**3,490**	2,696
Performance related bonuses	**217**	397
Pension scheme contributions	**278**	259
	7,818	6,706

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Lai Xiaoling	**260**	268
Ms. Liu Qianli	**260**	268
Mr. Ma Suen Yee Andrew	**260**	268
	780	804

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	521	581	35	50	1,187
Mr. Bi Lin	521	519	54	53	1,147
Mr. Sun Zhiyan*	448	848	–	47	1,343
Mr. Chen Jianyu	521	697	58	48	1,324
Mr. Lin Zhibin	521	421	35	38	1,015
Mr. Lin Jiabin	521	424	35	42	1,022
	3,053	3,490	217	278	7,038

* Mr. Sun Zhiyan has resigned as an executive director and chief technology officer of the Company with effect from 10 November 2017.

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all non-director employees (2016: five non-director employees). Details of their remuneration for the year (2016: five) are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	4,080	4,339
Performance related bonuses	2,800	694
Equity-settled share-based payment expenses	9,265	73,878
Pension scheme contributions	208	210
	16,353	79,121

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

	Number of employees	
	2017	2016
HK$3,000,001 to HK$3,500,000	2	–
HK$3,500,001 to HK$4,000,000	2	–
HK$4,000,001 to HK$4,500,000	–	1
HK$4,500,001 to HK$5,000,000	1	1
HK$24,500,001 to HK$25,000,000	–	1
HK$27,500,001 to HK$28,000,000	–	1
HK$29,500,001 to HK$30,000,000	–	1
	5	5

During the year and in prior years, share-based payments were made to five non-director highest paid employees in respect of their services to the Group (2016: five), further details of which are included in the disclosures in note 27 to the financial statements. The fair value of share-based payments, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

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

Under the relevant income tax law, the PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Youli, Kailuo Tianxia, Xiamen Yidou, Xiamen Guangyu and Xiamen Feixin which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2013, 2013, 2014, 2015 and 2016 are the first profitable years for Xiamen Youli, Kailuo Tianxia, Xiamen Yidou, Xiamen Guangyu and Xiamen Feixin, respectively.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB416,130,000 at 31 December 2017 (2016: RMB412,914,000).

	2017 **RMB'000**	2016 RMB'000
Current tax (credit)/expense	**(1,508)**	10,547
Deferred tax (note 18)	**653**	(2,901)
Total tax (credit)/expense for the year	**(855)**	7,646

10. INCOME TAX (Continued)

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

	2017 RMB'000	2016 RMB'000
Loss before tax	(389,635)	(153,269)
Tax at the applicable tax rate	(99,792)	(55,342)
Lower tax rates enacted by local authorities	(10,543)	(8,800)
Expenses not deductible for tax	86,455	52,327
Other tax credit	(5,831)	(5,922)
Income not subject to tax	(150)	–
Tax losses utilised from previous years	(36)	(1,731)
Deferred tax assets not recognised	29,042	27,114
Tax (credit)/expense	(855)	7,646

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed and paid 2015 final dividend – HK3 cents per ordinary share	–	39,737
	–	39,737

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,548,600,256 (2016: 1,560,502,622) in issue during the year, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2017 and 2016 in respect of a dilution as the impact of the share option outstanding had an anti-dilution effect in the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017					
At 31 December 2016 and at 1 January 2017:					
Cost	11,381	9,525	13,458	1,063	35,427
Accumulated depreciation	(8,057)	(7,055)	(6,939)	–	(22,051)
Net carrying amount	3,324	2,470	6,519	1,063	13,376
At 1 January 2017, net of accumulated depreciation	3,324	2,470	6,519	1,063	13,376
Additions	1,724	2,616	1,422	3,562	9,324
Acquisition of a subsidiary (note 29)	77	–	–	–	77
Disposals	(103)	(383)	(1,093)	–	(1,579)
Impairment	–	–	(995)	–	(995)
Depreciation provided during the year	(1,912)	(1,117)	(3,077)	–	(6,106)
At 31 December 2017, net of accumulated depreciation and impairment	3,110	3,586	2,776	4,625	14,097
At 31 December 2017:					
Cost	12,643	10,020	12,812	4,625	40,100
Accumulated depreciation and impairment	(9,533)	(6,434)	(10,036)	–	(26,003)
Net carrying amount	3,110	3,586	2,776	4,625	14,097

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Management recognised an impairment of leasehold improvements due to the underperformance in revenue generating actives of Carrot Fantasy series. The recoverable amount, which was its fair value less cost of sale, was nil.

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

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000
Carrying amount at 1 January	109,062
Addition	–
Recognised during the year	(2,755)
Carrying amount at 31 December	106,307
Current portion included in prepayments, deposits and other receivables	(2,755)
Non-current portion	103,552

15. GOODWILL

	RMB'000
Cost at 1 January 2016	409,557
Acquisition of a subsidiary	12,450
Impairment during the year	(107,754)
At 31 December 2016	314,253
At 31 December 2016	
Cost	422,007
Accumulated impairment	(107,754)
Net carrying amount	314,253
Cost at 1 January 2017	314,253
Acquisition of a subsidiary (note 29)	11,210
Disposal of a subsidiary	(939)
Impairment during the year	(300,477)
At 31 December 2017	24,047
At 31 December 2017	
Cost	432,278
Accumulated impairment	(408,231)
Net carrying amount	24,047

Impairment testing of goodwill

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

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

15. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

The recoverable amount of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year to seven-year period approved by board of directors. The discount rate applied to the cash flow projections is 24% (2016: 24%). The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2017 RMB'000	2016 RMB'000
Super Phantom Cat cash-generating unit	12,450	12,450
Shenzhen Zhangxin cash-generating unit	11,210	–
Sanguo Zhiren cash-generating unit	387	387
Carrot Fantasy cash-generating unit	–	300,076
Tianxia Jiayou cash-generating unit	–	939
Jiong Xi You cash-generating unit	–	401
Carrying amount of goodwill	24,047	314,253

Management recognised an impairment of goodwill of Carrot Fantasy cash-generating unit and Jiong Xi You cash-generating unit due to the underperformance in revenue generating activities of Carrot Fantasy series and Jiong Xi You. The recoverable amount of these CGUs were their value in use. The recoverable amount were nil for both CGUs.

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The Company believes this budgeted income is justified given the strong game development capability and experience of games, the cooperation with major third-party distribution platforms and the successful record of developing its games.

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

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Game intellectual properties and licences RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	2,032	3,599	5,631
Additions	–	–	–
Amortisation provided during the year	(231)	(3,599)	(3,830)
At 31 December 2017	1,801	–	1,801
At 31 December 2017:			
Cost	6,041	74,636	80,677
Accumulated amortisation and impairment	(4,240)	(74,636)	(78,876)
Net carrying amount	1,801	–	1,801
31 December 2016			
Cost at 1 January 2016, net of accumulated amortisation	2,850	33,667	36,517
Additions	–	–	–
Amortisation provided during the year	(818)	(20,485)	(21,303)
Impairment during the year	–	(9,583)	(9,583)
At 31 December 2016	2,032	3,599	5,631
At 31 December 2016:			
Cost	6,041	74,636	80,677
Accumulated amortisation and impairment	(4,009)	(71,037)	(75,046)
Net carrying amount	2,032	3,599	5,631

17. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Shares of net assets	2,204	2,163
Goodwill on acquisition	7,025	15,505
	9,229	17,668

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

	2017 RMB'000	2016 RMB'000
Share of the associates' losses for the year	(218)	(771)
Impairment of an investment in an associate	–	(3,512)
Aggregate carrying amount of the Group's investments in the associates	9,229	17,668

18. DEFERRED TAX

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

Deferred tax assets

	Advertisement expense RMB'000	Deferred revenue RMB'000	Accruals RMB'000	Losses available for offsetting against future taxable income RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Total RMB'000
At 1 January 2016	50	1,626	1,261	299	8	3,244
Deferred tax (charged)/credited to the statement of profit or loss during the year (note 10)	(50)	64	(564)	(299)	(8)	(857)
At 31 December 2016	–	1,690	697	–	–	2,387
At 1 January 2017	–	1,690	697	–	–	2,387
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	(970)	(133)	–	–	(1,103)
At 31 December 2017	–	720	564	–	–	1,284

18. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of tax losses of RMB220,603,000 as at 31 December 2017 (2016: RMB120,516,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

	Value appreciation of intangible assets during acquisition of Kailuo Tianxia RMB'000
At 1 January 2016	4,208
Deferred tax credited to the statement of profit or loss during the year (note 10)	(3,758)
At 31 December 2016	450
At 1 January 2017	450
Deferred tax credited to the statement of profit or loss during the year (note 10)	(450)
At 31 December 2017	–

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

The Group's credit terms with customers generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its receivable balances. These receivables are non-interest-bearing.

An aging analysis of the receivables as at the end of the year, based on the invoice date, is as follows:

	2017 **RMB'000**	2016 RMB'000
Within 3 months	**25,501**	54,268

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

	2017 **RMB'000**	2016 RMB'000
Within 3 months	**25,501**	54,268

All of the receivables that were neither past due nor impaired mainly relate to a large number of diversified customers for whom there was no recent history of default.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Non-current		
Prepayments	999	12,477
Prepaid land lease payments related deposits*	6,420	8,025
Other receivables	1,817	1,910
	9,236	22,412
Current		
Prepayments	8,436	6,513
Deposits	11,171	4,566
Other receivables	26,035	8,807
	45,642	19,886

* In 2016, the Group made a land lease related deposit of RMB10,700,000 to the government, among which RMB4,280,000 was included in the current portion as at 31 December 2017. The amount will be returned to the Group in the future after the Group meets certain criteria.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movement in provision for impairment of other receivables are as follows:

	2017 RMB'000
At beginning of year	–
Impairment losses recognised	3,000
	3,000

21. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2017 RMB'000	2016 RMB'000
Structured financial product		–	7,139
Total current available-for-sale investment		–	7,139
Structured financial products		–	64,000
Straight bonds	(1)	89,418	112,007
Convertible bond	(2)	19,948	19,257
Convertible preferred shares	(3)	43,861	46,342
Investment in life insurance policies	(4)	87,863	90,708
Unlisted equity investments, at cost	(5)	128,941	66,802
Total non-current available-for-sale investments		370,031	399,116

(1) On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million).

In April and July 2015, the Group invested in a bond issued by Sparkle Assets Limited with a nominal amount of US$9,200,000 at a consideration of US$9,679,000 (equivalent to approximately RMB59.3 million). The bond has a coupon interest rate of 6.875% per annum with a maturity period of 7 years. On 30 May 2017, the Group sold the straight bond with a nominal amount of US$9,200,000 at a consideration of US$9,727,000 (equivalent to approximately RMB66.8 million).

On 9 September 2016, the Group invested in a bond issued by Zhongrong International Bond 2015 Limited with a nominal amount of US$3,000,000 at a consideration of US$3,062,000 (equivalent to approximately RMB20.4 million). The bond has a coupon interest rate of 6% per annum with a maturity period of 3 years.

On 23 June 2017, the Group invested in a bond issued by Huarong Finance 2017 Co., Ltd. with a nominal amount of US$3,000,000 at a consideration of US$3,142,000 (equivalent to approximately RMB21.4 million). The bond has a coupon interest rate of 4.75% per annum with a maturity period of 10 years.

On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by The Bank of East Asia, Limited with a nominal amount of US$4,000,000 at a consideration of US$4,093,000 (equivalent to approximately RMB27.9 million). The bond has a coupon interest rate of 4.25% for first five years and an aggregate of the then-prevailing U.S. Treasury Rate and the Spread, 2.7%, for the next five years with a maturity period of 10 years.

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

21. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

(2) On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million).

The coupon interest can be cancelled any time at the issuer's sole discretion. The convertible bond shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants.

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(3) On 18 February 2015, the Group invested in convertible preferred shares issued by Industrial and Commercial Bank of China Limited with a nominal amount of US$5,000,000 at a consideration of US$5,225,000 (equivalent to approximately RMB32.0 million). The convertible preferred shares have a non-cumulative dividend of 6% per annum.

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

The declaration of dividend is at the issuer's sole discretion. The convertible preferred shares shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants. The Group is not entitled to any voting right by holding such convertible preferred shares unless the dividend has not been paid in full for the most recent two dividend periods or a total of three dividend payments have not been paid in full.

Available-for-sale investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(4) In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. Under these policies, the beneficiary and policy holder is the Company. The Company has paid out the total insurance premium with an aggregate amount of approximately US$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. The Company can terminate the policy at any time and receive back based on the surrender value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

As at 31 December 2017, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group (note 24).

(5) The investments represented the equity interests held by the Group in several unlisted companies at a total investment cost of RMB128,941,000 (2016: RMB66,802,000).

As at 31 December 2017, the above unlisted equity investments were stated at cost less impairment. The directors are of the opinion that fair value cannot be measured reliably because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The Group does not intend to dispose of them in the near future.

During the year, the net gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB11,372,000 (2016: net gain of RMB4,606,000). In the meantime, profit of RMB3,233,000 (2016: RMB1,105,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

22. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**155,397**	230,167
Time deposits	**–**	6,861
Cash and cash equivalents	**155,397**	237,028
Denominated in HK$	**12,067**	28,243
Denominated in RMB	**122,608**	157,423
Denominated in US$	**20,722**	51,362
Cash and cash equivalents	**155,397**	237,028

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

23. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Salaries and welfare payables	**43,659**	40,648
Other payables and accruals	**10,166**	34,525
Other tax payables	**1,517**	3,309
Advance from customers	**112**	366
Payables for contingent consideration (note 34)	**–**	11,505
	55,454	90,353

24. INTEREST-BEARING BANK BORROWING

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Short term loan – secured	2.436	Monthly renewable	53,504	2.082	Monthly renewable	55,655

	2017 RMB'000	2016 RMB'000
Analysed into:		
Short term loan facility:		
Within one year or on demand	53,504	55,655

Notes:

(a) The Group's short term loan facility amounted to US$40,000,000 (2016: US$40,000,000), of which HK$64,007,000 (equivalent to approximately RMB53.5 million) (2016: US$8,023,000) had been drawn as at the end of the reporting period, and is secured by the Group's investment in the life insurance policies (note 21). The period of the loan is one month and renewable on a monthly basis.

(b) The borrowing was in Hong Kong dollars as at 31 December 2017, and in United States dollars as at 31 December 2016.

25. DEFERRED REVENUE

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

26. SHARE CAPITAL

Shares

	2017	2016
Issued and fully paid or credited as fully paid:		
Ordinary shares of US$0.0000001 each	**1,546,901,955**	1,569,261,000
Equivalent to RMB'000	**1**	1

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

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** RMB'000	**Share premium** RMB'000	**Total** RMB'000
At 1 January 2016	1,541,032,500	1	490,051	490,052
Share options exercised	17,675,000	–	28,012	28,012
Issue of shares (note 34)	29,500,000	–	53,590	53,590
Cancellation of repurchased shares	(18,946,500)	–	(27,197)	(27,197)
2015 final dividend	–	–	(39,737)	(39,737)
At 31 December 2016	1,569,261,000	1	504,719	504,720
RSU exercised	7,000,000	–	7,616	7,616
Share options exercised	12,353,000	–	19,377	19,377
Issue of shares (note 34)	11,183,955	–	11,915	11,915
Cancellation of repurchased shares (a)	(52,896,000)	–	(52,693)	(52,693)
At 31 December 2017	1,546,901,955	1	490,934	490,935

(a) Repurchase of shares

The Company cancelled 52,896,000 repurchased shares with the carrying amount of RMB52,693,000 during the year. The remaining 3,382,500 shares of RMB2,906,000 were recorded as treasury shares in the consolidated statement of financial position.

27. EQUITY-SETTLED SHARE-BASED PAYMENT

(1) Share option schemes

The Company approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme", together as the "Schemes") pursuant to shareholders' written resolutions and directors' written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK$0.55 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently will expire on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 27 March 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 10,160,000 shares at an exercise price of HK$1.256 per share. 7,160,000 share options granted will be vested equally in four tranches as to 25% of the number of shares on 31 December 2017, 2018, 2019 and 2020, respectively. 3,000,000 share options granted will be vested in three tranches as to 50%, 25% and 25% of the number of shares on 30 June 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 26 March 2027. On 15 May 2017, under the Post-IPO Share Option Scheme, share option were granted to employees to subscribe for 5,000,000 shares at an exercise price of HK$1.1 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 15 May 2018, 2019, 2020 and 2021, respectively. Each option granted if not exercised subsequently will expire on 14 May 2027. On 13 November 2017, under the Post-IPO Share Option Scheme, share options were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019, and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027.

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

(1) Share option schemes (Continued)

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

	2017		2016	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.71	69,507	0.65	102,253
Granted during the year	1.12	30,160	1.63	1,000
Forfeited during the year	0.61	(4,000)	0.55	(16,070)
Exercised during the year	0.55	(12,353)	0.55	(17,675)
Expired during the year	0.55	(1)	0.55	(1)
At 31 December	0.89	83,313	0.71	69,507

The weighted average share price at the date of exercise for the share options exercised during the year was HK$1.14 per share (2016: HK$1.80 per share).

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

2017 Number of options '000	Exercise price* HK$ per share	Exercise period
49,513	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
6,800	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
5,000	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
83,313		

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

(1) Share option schemes (Continued)

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

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was approximately RMB15,580,000 (2016: RMB620,000), of which the Group recognised a share option expense of RMB4,397,000 during the year ended 31 December 2017.

The fair value of the share options granted during the year was estimated at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists out inputs used in the model:

	2017	2016
Dividend yield (%)	–	–
Expected volatility (%)	56.1-57.3	61.8
Risk-free interest rate (%)	1.42-1.75	0.98
Expected life of options (year)	10	10
Share price (HK$ per share)	0.60	0.72

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

The 12,353,000 share options exercised during the year resulted in the issue of 12,353,000 ordinary shares of the Company and share premium of RMB19,377,000, as further detailed in note 26 to the financial statements.

At the end of the reporting period, the Company had 83,313,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 83,313,000 additional ordinary shares of the Company, an additional share capital of approximately RMB54 and a share premium of approximately RMB61,746,000.

At the date of approval of these financial statements, the Company had 78,439,500 share options outstanding under the Schemes, which represented 5.10% of the Company's shares in issue as at that date.

The Group recognised total share option expenses of RMB14,805,000 for the year ended 31 December 2017 (2016: RMB23,285,000).

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

(2) Restricted Share Unit ("RSU") Plan

The Company approved and adopted a pre-IPO restricted share unit plan (the "Pre-IPO RSU Plan") and a post-IPO restricted share unit plan (the "Post-IPO RSU Plan") on 17 November 2014 for the purpose of rewarding eligible participants for their contribution to the Group. Eligible participants of the Pre-IPO RSU Plan and Post-IPO RSU Plan include full-time employees, officers or suppliers, customers, consultants, agents or advisers of the Group, and any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of the ordinary shares underlying awards made pursuant to the Pre-IPO RSU Plan is 13,850,000. On 17 November 2014, RSUs to subscribe for 13,850,000 shares were granted to certain eligible employees and all of the 13,850,000 Pre-IPO RSUs granted were vested on 1 April 2015.

The maximum number of shares that may underlie awards of RSUs to be granted under the Post-IPO RSU Plan is 45,000,000 shares. On 27 March 2017, under the Post-IPO RSU Plan, the Company conditionally granted a total number of 14,000,000 RSUs to certain eligible employees. Such RSUs shall be vested 50% each at 31 December of year 2017 and 2018, respectively.

The fair value of the RSUs granted as at the date of grant was approximately RMB15,232,000 (HK$1.23 each), of which the Group recognised a total RSU award expense of RMB10,880,000 in the year 2017.

As at 31 December 2017, the Company had 7,000,000 RSUs outstanding under the Post-IPO RSU Plan, which represented 0.45% of the Company's shares in issue as at that date.

28. RESERVES

Statutory reserve

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

29. BUSINESS COMBINATIONS

On 24 November 2017, the Group acquired additional 21% of the equity interest of Shenzhen Zhangxin Interactive Technology Co., Ltd. ("Shenzhen Zhangxin") at a cash consideration of RMB6,300,000, of which the Group held 30% of the equity interest before the acquisition. Shenzhen Zhangxin is engaged in game development. The fair values of the identifiable assets and liabilities of Shenzhen Zhangxin as at the date of acquisition were:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	13	77
Cash and bank balances		7,305
Accounts receivable		332
Prepayments, deposits and other receivables		185
Other payables and accruals		(2,643)
Non-controlling interests		(2,575)
Total identifiable net assets at fair value		2,681
Goodwill on acquisition	15	11,210
Consideration:		
Satisfied by cash		6,300
Acquisition-date fair value of previously held 30% interest		7,591

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

	RMB'000
Cash consideration	(6,300)
Cash and bank balances acquired	7,305
Net inflow of cash and cash equivalents included in cash flows from investing activities	1,005

Since the acquisition, Shenzhen Zhangxin contributed RMB193,000 to the Group's revenue and loss of RMB736,000 to the consolidated loss for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue and loss of the Group for the year would have been RMB141,169,000 and RMB393,126,000.

30. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2017, the Group disposed of 35.86% equity interests in Shenzhen Tianxia Jiayou Technology Co. Ltd ("Jiayou") at a consideration of RMB1. Jiayou is principally engaged in game development. The disposal was completed in December 2017 and the Group recognised a loss on disposal of approximately RMB5,808,000. After completion of the disposal, Jiayou became the available-for-sale investment of the Group with 24.14% equity interests.

31. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000
At 1 January 2017	55,655
Changes from financing cash flows	(1,081)
Foreign exchange movement	(1,070)
At 31 December 2017	53,504

32. OPERATING LEASE ARRANGEMENTS

Operating lease commitments

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

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

As lessee

	2017 **RMB'000**	2016 RMB'000
Within one year	**8,011**	6,456
In the second to third years, inclusive	**4,539**	7,558
In the fourth to fifth years	**124**	–
	12,674	14,014

33. COMMITMENTS

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for:		
Construction in progress	**88,140**	2,060
Capital contributions payable to an unlisted equity investment	**4,574**	–
Game operation	**1,135**	4,000
	93,849	6,060

34. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Fine Point Development Limited ("Fine Point")	Controlled by one member of senior management of the Group*
Xiamen Plump Fish Cultural Media Co., Ltd. ("Plump Fish")	Controlled by directors of the Company
Guangzhou Popcorn Animation Technology Co., Ltd. ("Guangzhou Popcorn")	Associate
Shenzhen Zhangxin	Associate**
Xiamen Chenxing Interactive Technology Co., Ltd. ("Xiamen Chenxing")	Associate
Chen Jianyu	Shareholder of the Company

* The member of senior management resigned on 31 December 2016.

** Shenzhen Zhangxin became a subsidiary of the Group in November 2017.

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2017 Number of shares '000	2016 Number of shares '000
Shares issued (note (i))		
Fine Point	**11,184**	29,500

34. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

	2017 RMB'000	2016 RMB'000
Advertising fee (note (ii))		
Plump Fish	–	197
Service outsourcing from (note (iii))		
Guangzhou Popcorn	957	–
Purchases of property, plant and equipment (note (iv))		
Chen Jianyu	891	–
Loans to associates		
Xiamen Chenxing (note (v))	5,422	–
Shenzhen Zhangxin (note (vi))	2,500	–
	7,922	–
Interest from (note (vi))		
Shenzhen Zhangxin	44	–

Notes:

(i) On 26 August 2015, the Group entered into a share transfer agreement to acquire the non-controlling interests in Xiamen Yidou and Xiamen Zhangxin from Fine Point through allotting and issuing a maximum of 118,000,000 shares to Fine Point. The maximum of 118,000,000 shares will be allotted and issued in four tranches which will be adjusted based on the financial results of Xiamen Yidou and Xiamen Zhangxin in the future years. Based on the share transfer agreement, upon completion of the acquisition of the non-controlling interests, the first tranche 29,500,000 shares were issued at an issue price of HK$1.97 per share and listed on the Hong Kong Stock Exchange on 26 August 2015, and the second tranche 29,500,000 shares were issued at an issue price of HK$2.18 per share and listed on the Hong Kong Stock Exchange on 31 March 2016. The third tranche 11,183,955 shares were issued at an issue price of HK$1.20 per share and listed on the Hong Kong Stock Exchange on 31 March 2017. A fair value change amounting to RMB495,000 was recognised for the year ended 31 December 2017. The fourth tranche of a maximum of 29,500,000 shares were waived based on the mutual agreement between the Group and Fine Point on 31 December 2016.

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

(iii) The purchase of video production services from Guangzhou Popcorn was mutually agreed after taking into account the prevailing market prices.

(iv) The purchase of a vehicle from Mr. Chen Jianyu in June 2017 was mutually agreed after taking into account the prevailing market prices.

(v) The Group offered a interest free loan amounting to RMB5,422,000 to an associate, Xiamen Chenxing, in November 2017.

(vi) The Group offered loans amounting to RMB2,500,000 at 5% p.a. to Shenzhen Zhangxin, and the loans have been repaid in 2017.

34. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties:

	2017 Number of shares '000	2016 Number of shares '000
Due to a shareholder		
Fine Point	–	11,184

	Amount RMB'000	Amount RMB'000
Fine Point	–	11,505

	2017 RMB'000	2016 RMB'000
Due from an associate		
Xiamen Chenxing	5,422	–

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

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	3,157	3,401
Performance related bonuses	1,754	3,484
Equity-settled share-based payment expenses	5,057	5,266
Other share-based payment expenses	–	20,430
Pension scheme contributions	110	166
	10,078	32,747

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

35 FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets
As at 31 December 2017

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	25,501	25,501
Financial assets included in prepayments, deposits and other receivables	–	45,443	45,443
Available-for-sale investments	370,031	–	370,031
Cash and cash equivalents	–	155,397	155,397
	370,031	226,341	596,372

As at 31 December 2016

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	54,268	54,268
Financial assets included in prepayments, deposits and other receivables	–	23,308	23,308
Available-for-sale investments	406,255	–	406,255
Cash and cash equivalents	–	237,028	237,028
Restricted cash	–	680	680
	406,255	315,284	721,539

35. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2017	2016
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	**7,166**	31,804
Interest-bearing bank borrowing (note 24)	**53,504**	55,655
	60,670	87,459

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

Assets measured at fair value

As at 31 December 2017

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Available-for-sale investments	**–**	**241,090**	**–**	**241,090**

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

Assets measured at fair value (Continued)

As at 31 December 2016

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

Liabilities measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Payables for contingent consideration	11,505	–	–	11,505

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

For the year ended 31 December 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2016: nil).

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 37% (2016: 67%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

Liquidity risk

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

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

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Group

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	53,515	–	–	–	53,515
Other payables	1,600	5,566	–	–	–	7,166
	1,600	59,081	–	–	–	60,681

	2016					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	55,668	–	–	–	55,668
Other payables	4,219	–	27,585	–	–	31,804
	4,219	55,668	27,585	–	–	87,472

Capital management

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

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

The debt-to-asset ratios as at the end of each of the 31 December 2017 and 31 December 2016 were as follows:

	2017 RMB'000	2016 RMB'000
Total liabilities	126,561	174,377
Total asset	762,249	1,200,151
Debt to asset ratio	17%	15%

38. EVENT AFTER THE REPORTING PERIOD

The Group entered into an exclusive licensing agreement with Xiamen Meitu Networks Technology Co., Ltd. ("Meitu Networks"), as disclosed in the Company's announcement dated 21 March 2018, which allows the Company to operate, develop and manage the game businesses for Meitu Networks based on their game distribution platforms and channels.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Note	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		405,582	379,897
Available-for-sale investments		241,090	268,316
Total non-current assets		646,672	648,213
CURRENT ASSETS			
Due from subsidiaries		108,597	91,087
Prepayments, deposits and other receivables		177	900
Cash and cash equivalents		17,922	61,463
Total current assets		126,696	153,450
CURRENT LIABILITIES			
Due to subsidiaries		1,161	814
Other payables and accruals		336	12,940
Interest-bearing bank borrowing		53,504	55,655
Total current liabilities		55,001	69,409
NET CURRENT ASSETS		71,695	84,041
NET ASSETS		718,367	732,254
EQUITY			
Share capital	26	1	1
Share premium	26	490,934	504,719
Treasury shares	26	(2,906)	(8,394)
Reserves (note)		230,338	235,928
Total equity		718,367	732,254

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

Note:

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

	Equity-settled share-based payment reserve RMB'000	Available-for-sale investment revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
At 1 January 2016	76,405	(18,488)	15,867	(9,021)	64,763
Total comprehensive income for the year	–	3,430	26,145	71,912	101,487
Equity-settled share-based payment expenses	89,463	–	–	–	89,463
Exercise of options	(19,785)	–	–	–	(19,785)
At 31 December 2016	146,083	(15,058)	42,012	62,891	235,928
Total comprehensive income for the year	–	8,279	(21,865)	3,924	(9,662)
Equity-settled share-based payment expenses	25,685	–	–	–	25,685
Exercise of options	(21,613)	–	–	–	(21,613)
At 31 December 2017	150,155	(6,779)	20,147	66,815	230,338

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 26 March 2018.

DEFINITION

"AGM"	The annual meeting of the Company to be held on Monday, 28 May 2018
"Android"	an operating system developed and maintained by Google Inc.
"ARPPU"	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
"Articles of Association" or "Articles"	the articles of association of the Company adopted on 17 November 2014, as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors" or "our Board"	the board of Directors of the Company
"Cayman Companies Law" or "Companies Law"	the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Cayman Islands"	the Cayman Islands
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC"or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	The Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) effective from March 3, 2014, as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "we", "us" or "our"	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
"Contractual Arrangements"	a series of contractual arrangements entered into by Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. YAO Jianjun, Mr. BI Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited
"Director(s)"	directors of the Company

"ESG Report"	Environmental, Social and Governance Report
"Executive Director(s)"	the executive Directors of the Company
"Feiyu Hong Kong"	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014
"Global Offering"	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
"Group", "our Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"HK$" or "Hong Kong dollars" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAS(s)"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the IASB
"Independent Non-executive Director(s)"	the independent non-executive Director(s) of the Company
"iOS"	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
"IPO"	initial public offering of the Shares on the Main Board of the Stock Exchange
"Kailuo Tianxia"	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Licensed Property"	collectively, the Xiamen Guangyu Licensed Property, the Kailuo Tianxia Licensed Property and the Xiamen Youli Licensed Property
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange

DEFINITION

"Listing Date"	the date which dealings in Shares first commence on the Main Board of the Stock Exchange, i.e. 5 December 2014
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAU"	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), the PRC operating entity of Meitu
"Meitu"	Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, shares of which are listed on the main board of the Stock Exchange (Stock Code: 1357)
"Memorandum"	the memorandum of association of the Company adopted on 17 November 2014, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
"Nomination Committee"	the nomination committee of the Board
"PC"	Personal computer
"Post-IPO RSU Plan"	The post-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Post-IPO Share Option Scheme"	The post-IPO share option scheme adopted by the Shareholders on 17 November 2014
"PRC Contractual Entities"	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and "PRC Contractual Entity" means any one of them
"PRC Operating Entities"	Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them

"Pre-IPO RSU Plan"	The pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Pre-IPO Share Option Scheme"	The pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
"Prospectus"	the prospectus dated 25 November 2014 issued by the Company
"Relevant Shareholder(s)"	Messrs. YAO Jianjun, BI Lin, CHEN Jianyu, LIN Jiabin, LIN Zhibin, CAI Wensheng and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"RPG"	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more "characters" who develop specific skill sets (such as melee combat or casting magic spells) and control the character's actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
"RSU(s)"	restricted share units or any one of them
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shares"	ordinary share(s) in the share capital of our Company with nominal value of US$0.0000001 each
"Shareholders"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules
"US$", "U.S. dollars", "USD" or "United States Dollars"	United States dollars, the lawful currency of the United States of America
"Xiamen Feixin"	Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 13 November 2014
"Xiamen Feiyou"	Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014

DEFINITION

"Xiamen G-bits"	Xiamen G-bits Equity Investment Co., Ltd. (廈門吉比特股權投資有限公司), a wholly owned subsidiary of G-bits Network Technology (Xiamen) Co., Ltd. which is an online game developing and operating company with its shares listed on the Shanghai Stock Exchange (Stock Code: 603444)
"Xiamen Guanghuan"	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009
"Xiamen Guangyu"	Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Xiamen Yidou"	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012
"Xiamen Youli"	Xiamen Youli Information Technology Co., Ltd. (廈門遊力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Xiamen Zhangxin"	Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 27 October 2014
"Xiamen Zhangxin Internet"	Xiamen Zhangxin Internet Technology Co., Ltd. (廈門掌信網絡科技有限公司), a limited liability company established in the PRC and held as to 50% equity interests by each of Mr. Yao Jianjun and Mr. Chen Jianyu as at the date of the Licence Agreement (29 March 2016) and held as to 38.089%, 38.089% and 5.7857% equity interests by each of Mr. Yao Jianjun, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2017

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