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

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

2017 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua
Mr. REN Hao
Mr. ZHU Wenjun

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong

Audit Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong

Remuneration Committee

Dr. LOU Dong *(Chairman)*
Ms. LU Hong
Mr. ZHU Wenjun

Nomination Committee

Mr. CHAI Chaoming *(Chairman)*
Mr. DAI Jianchun
Ms. LU Hong
Dr. LOU Dong
Mr. REN Hao

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Mr. ZHU Wenjun
Ms. MUI Ngar May, Joel

PRINCIPAL LEGAL ADVISORS

P.R.C. & Hong Kong

Zhong Lun Law Firm

Cayman Islands

Conyers Dill & Pearman, Cayman

AUDITORS

KPMG

REGISTERED OFFICE

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

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS

Hong Kong

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

PRC (Online Game Business)

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

PRC (Copper Business)

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

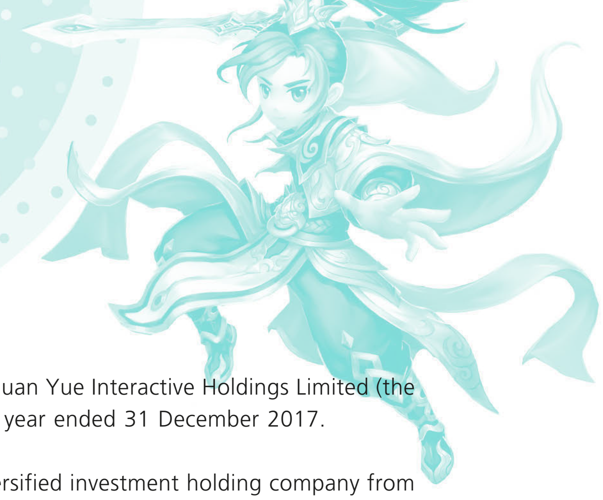
Agricultural Bank of China
China Construction Bank
Bank of China

COMPANY WEBSITE

www.huanyue.com.hk

STOCK CODE

505



CHAIRMAN'S STATEMENT

On behalf of the board of Directors, I am pleased to present the annual report of Huan Yue Interactive Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017.

2017 is the second year that the Company continued its transformation into a diversified investment holding company from an enterprise with a single business of manufacturing copper plates and strips. While the Company focused on managing the operation of the heavy intensive assets business of copper plates and strips ("**Copper Business**") prudently, the Company also actively developed light intensive assets business of online games ("**Game Business**"). Furthermore, we have achieved delightful results both in the Copper Business and Game Business, which created more value for shareholders, employees and society.

In 2017, the major global economies achieved synchronized growth for the first time in the last ten years, and international trade also showed economic recovery due to improvement in global demand. The Chinese Government actively promoted structural economic adjustment, supply side reform and industry transformation & upgrading, and positively exerted the drive force of "the Belt and Road" to the economy, which maintained the continuous and stable growth of China's economy. During the reporting period, prices of nonferrous metals rose overall, and it is estimated that supply and demand of nonferrous metals will achieve primary balance, and prices will fall and rise in the future.

In 2017, the domestic copper processing industry was still in an adjustment and transformation stage. During the reporting period, under the joint efforts of all the employees, the Company reached another new high in the production and sales volume of high precision copper plates and strips for the copper processing business, and its annual production & sales volume reached 129,000 tons, which led China's high precision copper plates and strips industry. The Group's subsidiary Ningbo Xingye Shengtai Group Limited ("**Shengtai Group**"), which is engaged in copper processing business, was awarded as first out of the top ten copper plates & strips enterprises in China.

2017 was a challenging year for the Company's Game Business. The Game Business, which had been guided by traditional web games, is transforming as a result of mobile internet. Therefore, we plan to build our competitive advantage by actively expanding into the mobile internet market while stabilizing our traditional web game business.

I am pleased to announce that in 2017, the Company achieved profits attributable to equity holders of the Company of RMB135.5 million, an increase of 59.8% over 2016.

OUTLOOK

In 2018, China's economy will continue to rely on supply side reforms and to promote the "the Belt and Road" construction. In 2018, the Copper Business will be implemented with the working policy of "structure adjustment, benefit improvement, cost reduction and development seeking". For Game Business, the Company will make positive transformation to the web game (H5 game) of mobile terminals and extension services of other internet game platforms under the traditional advantage of strengthening web game, so as to achieve income diversification. I believe that under the guidance of the board of Directors and with the aggressive & difficulty-overcoming resolutions of our employees, we can make great achievements again in 2018.

APPRECIATION

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

HU Changyuan
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL BUSINESS REVIEW

The Group's total turnover amounted to RMB4,495.0 million, representing a growth rate of 30.8% compared to RMB3,435.5 million in 2016. The Group's profit attributable to the shareholders increased by 59.8% to RMB135.5 million, from RMB84.8 million in 2016.

ONLINE GAMES BUSINESS

Industry Review

According to *2017 China Game Industry Reports* ("**Report**"), China's game industry continued to develop steadily as a whole. The overall operating revenue amounted to RMB203.61 billion, representing an increase of 23.0% as compared to that of the corresponding period of last year. Among which, online games contributed a greater proportion to the operating revenue, which amounted to RMB151.32 billion in the first three quarters. The operating revenue for the whole year is RMB196.58 billion, representing an increase of 23.7% as compared to that of the corresponding period of last year.

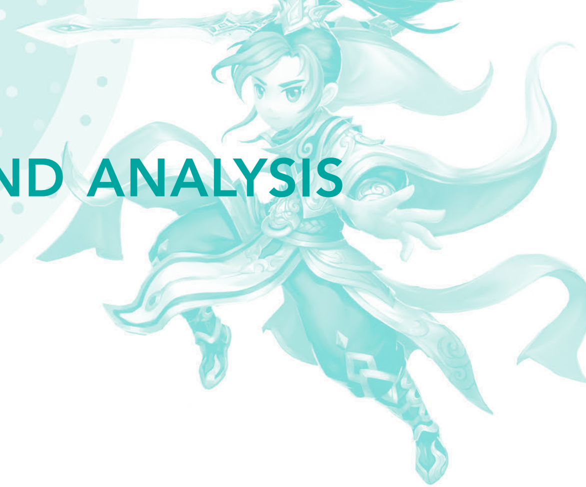
According to the Report, in 2017, the number of user-terminal game players reached approximately 150 million, which was comparable to that of the corresponding period of 2016; mobile game players amounted to approximately 460 million, representing an increase of 9.0% compared to that of the corresponding period of last year; web game players amounted to approximately 240 million, representing a decrease of 2.0% as compared to that of the corresponding period of last year.

Although the increase in users of online games has experienced slowdown, the percentage of core users showed an increase. Overall, game players' appreciation level has increased, so has their awareness of genuine versions. This provides a good development opportunity for good-quality and innovative independent games. Low-quality games will be phased out from the market.

Business Review

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

Funnytime achieved total revenue of RMB41.9 million and net profit of RMB21.5 million for the year ended 31 December 2017, representing an increase of 21.8% and 23.6% respectively over 2016. The adjusted net profit (as defined in the sale and purchase agreement) of RMB22.9 million for year 2017, representing an increase of 19.3% over RMB19.2 million of year 2016. According to the sale and purchase agreement, Funnytime shall achieve performance target of net profit (after adjustments for pre-agreed items as stipulated in the sales and purchase agreement) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for year ended 31 December 2016, 31 December 2017 and 31 December 2018 respectively. Funnytime's adjusted net profit has fulfilled its performance targets for both years ended 31 December 2016 and 31 December 2017. On 18 April 2017, 19,996,667 consideration shares were allotted and issued to Mobilefun pursuant to the sales and purchase agreement. Funnytime was consolidated into the Group's financial statements from the acquisition date of 5 August 2016, with its net profit of RMB6.2 million from the acquisition date to 31 December 2016. Net profit of RMB21.5 million was consolidated in the Group's financial statements for the year ended 31 December 2017.



Games

Operation Center:

In 2017, Zhangyue has further improved product layouts and business segments. Its traditional web game business continued to maintain a sound development. In the competitive leisure category, both Bosozoku (《暴走裝甲》) – a carrier shooting product, and Double Tap Hero (《槍王英雄》) – a first-person shooting product, reached more than 50,000 DAU (daily active users). The Art of War and Three Kingdoms (《兵法三國》) – a product in the strategic category was widely promoted after it was launched online. It is expected to continue to contribute stable income in 2018. In Acting Role Play Game ("**ARPG**") category, Zhangyue's new online products – New Scions of Fate (《新熱血江湖》) and Heart of the Overlord (《霸王之心》), received good feedbacks from players. Our new H5 game (mobile end web game) – Immortal Heroes (《傳世英雄》), was promoted widely on the Tencent Wanba platform and was entitled in 2017 as a top 10 product by Tencent Wanba. In 2017, Zhangyue also focused on expanding its operation to cover mobile games, which will lay a solid foundation for the Zhangyue's transformation toward mobile game operations. In 2018, the Company will continue to operate web games, such as, ARPG, competitive leisure, strategy, simulation and many other categories and products; actively expand H5 and mobile game business; and expand all kinds of promotion channels and create a self-owned H5 game platform (h5pk.com). Multiple heavy-weight intellectual products ("**IP**") are expected to be online in the second half of 2018.

R&D Center:

In 2017, in addition to the traditional web game research and development ("**R&D**") business line, Zhangyue added mobile game line and H5 R&D line. Of which, mobile game and H5 game R&D contributed stable income to Zhangyue. The R&D center also provides custom-made game products for other game companies. Revenue from such business accounts for approximately 20.3% of Zhangyue total revenue (2016: Nil). In 2018, the R&D center will continue to undertake the research and development of multiple mobile games and H5 games, especially to dedicate efforts to launch heavy-weight IP web games and self-developed H5 products.

COPPER PLATES AND STRIPS BUSINESS

Market and Industry Review

In 2017, China's copper market continued an upward trend with fluctuations. The domestic copper market was affected by limitation policies on imports of seven types of waste copper, as a result, the copper price started to go significantly higher from the second half of the year and hit a new high in October during the period from year 2015 to year 2017. It is expected that, affected by copper mine strikes abroad, China's environmental protection policies and limitation policies on imports of seven types of waste copper, in 2018, the copper price will continue the high trend which occurred at the end of 2017. Under the background of global economic recovery, copper plates and strips industry prospects are expected to improve in the near future. Especially, with the promotion and adoption of the new energy vehicle, the copper processing industry will witness a new growth drive. Meanwhile, the PRC government's policies to realise intelligent manufacturing in 2025 will lead the industry to a transformation towards high-precision copper products development.

Business Review

During the reporting year, the Group's copper processing business realised a total revenue of RMB4,453.1 million and sales volume of 138,766 tons, representing an increase of 30.2% and 9.6% respectively over 2016. Revenue from precision copper plates and strips was RMB4,004.4 million, representing an increase of 25.1% from RMB3,202.2 million of last year. The sales volume of precision copper plates and strips was 89,607 tons, which was comparable with 89,541 tons of the corresponding period of 2016. The increase in copper plates and strips revenue was mainly due to an increase in copper price. During the reporting year, the revenue of copper products processing services reached RMB203.6 million, representing an increase of 26.5% from RMB160.9 million of last year. The volume of processing services was 40,442 tons, representing an increase of 25.5% from 32,231 tons of last year. During the reporting year, revenue from trading of raw materials was RMB245.1 million, representing an increase of 339.2% from RMB55.8 million of 2016. While trade sales were 8,717 tons, representing an increase of 80.6% from 4,826 tons of 2016. The increase in revenue and sales volume of trading was mainly attributable to an increase in the trading of raw materials resulting from the Group's sales structure change.

Business Development

Strategic adjustment: In order to adapt to the changing market environment and industry development demands, the Group started with adjustment of the organisational structure and set up a marketing department in 2017, with an aim to acquire market information or even predict market/industrial development trends, and to provide forward-looking information for management to make business decisions. Also, the Group established an R&D center to separate R&D from production in order to create an independent environment and provide sufficient support for developing new products.

Emphasis on quality instead of quantity: In order to create more value while avoiding simple price competition, since early 2017, the Group started to adjust its operation model to focus on winning by quality, by adding more high value-added products, and such strategies have yielded good results. During the reporting year, the Group's copper plates and strips operation company Ningbo Xingye Shengtai Group Limited ("**Shengtai Group**") was entitled as the top company among China's Top 10 copper plates and strips companies and was also recognised as one of Zhejiang Provincial Postdoctoral Workstations. The copper alloy strip developed by Shengtai Group, which is used for a kind of LED lead frame, has obtained a Zhejing manufacturing certification. In addition, one kind of high value-added phosphor bronze product made by Shengtai Group won the second prize for Technology Progress of Zhejiang Province in 2017.

OUTLOOK

In 2018, "restructuring, increasing efficiency, reducing costs and seeking for development" will be the Group's working guidelines in the copper plates and strips business. Of which, "restructuring" will be mainly reflected in adjustment of product structure, and increase in the percentage of sales of high value-added products; "increasing efficiency" will be reflected in increasing the product yield and the rate of recycling and utilisation of resources; "reducing cost" will be reflected in lowering material consumption and electricity consumption in production, improving the efficient use of spare parts, and saving expenses; and "seeking for development" will be reflected in building up a marketing department, R&D center, talent teams and information system. All staff of the Group's copper plates and strips business will dedicate their efforts to lay a solid foundation for early realisation of our vision to be a world class copper alloy plate and strip provider.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue and gross profit

The Group's copper business achieved a total revenue of RMB4,453.1 million for the year ended 31 December 2017, and the Group's online game business achieved revenue of RMB41.9 million.

For the year ended 31 December 2017, the Group recorded total sales revenue of RMB4,495.0 million, which increased by 30.8% from RMB3,435.5 million of last year. The increase in sales revenue of the Group's copper business was mainly due to an increase in sales volume of copper processing services and increase in copper price during 2017.

The Group sold 138,766 tons of copper products, which increased by 9.6% from 126,598 tons of 2016.

The Group recorded a gross profit of RMB524.4 million in 2017, which decreased by 5.1% as compared with 2016. The decrease in gross profit is mainly because one of the Group's largest customers made less orders on a high margin brass product during 2017 than it did in 2016.

Other income

For the year ended 31 December 2017, the Group recorded other income of RMB27.6 million, which decreased by RMB1.7 million as compared to 2016. The Group had RMB6 million more in government grants than it did in 2016, but had no gains from derivative financial instruments in 2017 (2016: RMB6.2 million).

Other expenses

For the year ended 31 December 2017, other expenses of the Group was RMB80.3 million, which decreased by RMB26.1 million from RMB106.4 million in 2016. This was mainly because the Group had less impairment loss on property, plant and equipment of the Group's copper business in 2017 than it had in 2016.

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd. and certain land and buildings became idle. During the year ended 31 December 2016, the Group assessed the recoverable amount of the related machinery and equipment, land and buildings, and as a result, an impairment loss of RMB24,849,000 was recognised for the machinery and equipment and no impairment loss was recognised for the land and buildings. During the year ended 31 December 2017, the Group re-assessed the recoverable amount of the land and buildings and as a result, the carrying amount of the land and buildings was written down to their estimated recoverable amount of RMB21,200,000. An additional impairment loss of RMB2,639,000 was recognised in "Other expenses" in 2017.

During the year ended 31 December 2017, the Group identified indicators of potential impairment of the hot dip tinning production line which was not yet ready for use, with a carrying amount of RMB40,356,000, because certain technical specifications of the production line were not satisfactory enough to produce the intended specialised output. The Group assessed the recoverable amount of the related machinery and equipment and as a result, the carrying amount of the machinery and equipment was written down to their estimated recoverable amount of RMB4,193,000. An impairment loss of RMB36,163,000 was recognised in "Other expenses" in 2017.

Distribution expenses

For the year ended 31 December 2017, the distribution expenses of the Group increased by RMB3.7 million from RMB48.4 million of 2016 to RMB52.1 million, which was mainly due to an increase in the sales volume of copper processing services.

Administrative expenses

For the year ended 31 December 2017, administrative expenses of the Group decreased by RMB61.2 million from RMB266.5 million of 2016 to RMB205.3 million, which was mainly due to a decrease in R&D (research and development) expenses.

Net finance costs

For the year ended 31 December 2017, the Group's net finance costs decreased to RMB36.2 million from RMB48.4 million of 2016, which was mainly due to the net foreign exchange gain of RMB9.2 million.

Income tax

For the year ended 31 December 2017, the Group's income tax expenses increased by RMB16.9 million to RMB39.2 million from RMB22.3 million of 2016, and the effective tax rate increased to 22.0% from 19.9% of last year, which was mainly because the preferential tax rate of Shengtai Group had expired since 2017.

Profit attributable to the shareholders of the Company

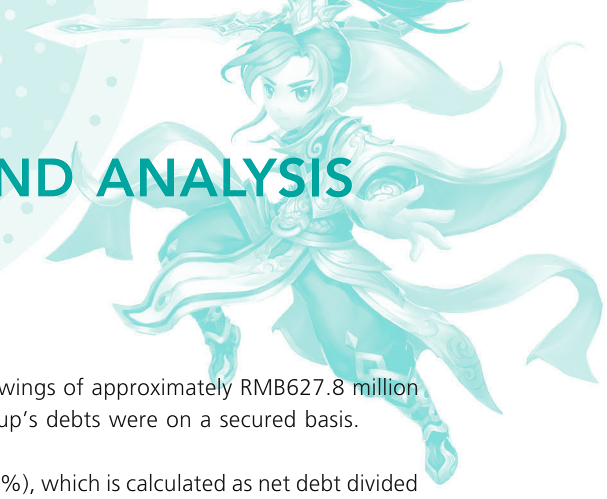
As a result of the aforementioned factors, during the year, the profit attributable to the shareholders of the Company increased by RMB50.7 million to RMB135.5 million from RMB84.8 million of 2016.

Liquidity and financial resources

As at 31 December 2017, the Group recorded net current assets of RMB175.1 million, compared with net current liabilities of RMB212.3 million as at 31 December 2016, which was primarily because the Group had more trade receivables and inventories, but had less trade payables as compared with 2016.

The short-term interest-bearing borrowings represented 73.1% of total interest-bearing borrowings as of 31 December 2017. As at the date of this announcement, the Group had not experienced any difficulty in raising funds by securing and rolling over the short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

The Group is able to generate cash from operating activities, has good credit standing and relationships with principal lending banks, and possesses available undrawn banking facilities together with bank deposits of RMB537.6 million (including long term loan facilities amounted to RMB177.4 million effective until 2019) and RMB292.4 million (comprised of restricted bank deposits of RMB116.1 million, bank deposits with maturity over three months of RMB10 million and cash and cash equivalents of RMB166.3 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board believes that the Group can roll over existing short-term bank borrowings upon maturity in the coming year. The Board is confident that the Group has adequate financial resources to sustain its working capital requirements and meet its foreseeable debt repayment requirements.



As at 31 December 2017, the Group had outstanding bank loans and other borrowings of approximately RMB627.8 million which shall be repaid within 1 year. As at 31 December 2017, 81.6% of the Group's debts were on a secured basis.

The net gearing ratio as at 31 December 2017 was 40.6% (31 December 2016: 38.3%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company, as shown in the consolidated statement of financial position, plus net debt.

Charge on assets

As at 31 December 2017, the Group pledged assets with an aggregate carrying value of RMB939.3 million (31 December 2016: RMB1,167.1 million) to secure bank loan facilities.

Capital expenditure

For the year ended 31 December 2017, the Group had invested RMB46.0 million in the purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank loans. The Group acquired its gaming business subsidiaries in 2016, and paid RMB82.5 million (net of cash acquired) for the first installment of cash consideration for the acquisition. The acquisition was largely financed by internal resources.

Capital commitments

As at 31 December 2017, future capital expenditures, for which the Group had contracted but not provided for, amounted to approximately RMB3.5 million.

Contingent liabilities

As at 31 December 2017, the Group did not have any significant contingent liabilities.

MARKET RISK

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

EMPLOYEES

As at 31 December 2017, the Group had 1,240 employees, of which the copper business and online gaming business had 1,151 and 89 employees respectively. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages to our employees. Benefits of the employees include salaries, pension, medical insurance scheme and other applicable social insurance. In addition, share options or share awards may be granted or awarded to eligible employees of the Group (including directors) in accordance with the terms of the approved share option scheme or share award scheme respectively. Promotion and salary increments are assessed based on performance. The Group's success is dependent upon the skills and dedication of its employees. The Group recognises the importance of human resources in a competitive industry and has devoted resources to train employees. The Group has established an annual training program for our employees so that new employees can master the skills required to perform their roles and responsibilities and the existing employees can upgrade or improve their skills.

ENVIRONMENTAL AND REGULATORY POLICES

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017, except that the trustee of the share award scheme adopted by the Company on 18 April 2016 (the "**Share Award Scheme**"), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 4,116,000 shares of the Company at a total consideration of HKD3,287,000 (equivalent to RMB2,868,000) during the year.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2017, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The current practices will be reviewed by the Board regularly to follow the latest practices of corporate governance.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors of the Company (the "**Directors**"), all the Directors confirmed that they had complied with the required standards set out in the Model Code during the year ended 31 December 2017.

BOARD

Board composition

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

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

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

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

Responsibilities of the Board

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

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

The Company convenes at least four regular Board meetings a year and meets more frequently as and when required. During the year ended 31 December 2017, the Board convened a total of 4 Board meetings and the individual attendance record of the Directors is tabulated as follows:

Name of Director	Number of meetings held while being a Director	Number of meetings attended
Executive Directors		
Mr. HU Changyuan *(Chairman)*	4	4
Mr. HU Minglie *(Chief Executive Officer)*	4	4
Mr. CHEN Jianhua	4	4
Mr. REN Hao	4	4
Mr. ZHU Wenjun	4	4
Non-executive Director		
Mr. DAI Jianchun	4	4
Independent Non-executive Directors		
Mr. CHAI Chaoming	4	3
Dr. LOU Dong	4	4
Ms. LU Hong	4	4

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

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

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

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

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

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

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

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

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

Corporate Governance Functions

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

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

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

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

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

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

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

Directors' and officers' liability

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

Directors' training and continuing professional development

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

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

The Company had arranged an in-house briefing on regulatory update of director's duties for listed companies to Directors conducted by a law firm during the year.

All Directors have participated in appropriate continuous professional development programmes and reading materials to develop and refresh their knowledge and skills and provided the Company their record of training they received for the year ended 31 December 2017.

DIRECTORS' APPOINTMENT, RE-ELECTION AND REMOVAL

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

Details of the selection process of new directors and a summary of work performed by the Nomination Committee in 2017 are set out under the "Nomination Committee" section below.

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

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

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

CORPORATE GOVERNANCE REPORT

DIVISION OF RESPONSIBILITIES

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

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

BOARD COMMITTEES

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

Audit Committee

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

Two Audit Committee meetings were held during the year ended 31 December 2017. At the meetings, the members of the Audit Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Audit Committee is tabulated as follows:

Name of Member	**Number of meetings held while being a Member**	**Number of meetings attended**
Mr. DAI Jianchun	2	2
Mr. CHAI Chaoming *(Chairman)*	2	1
Ms. LU Hong	2	2

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

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

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

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

– to review internal control matters with the external auditors;

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

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

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

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

The Audit Committee has free access to the accountants and senior management of the Group and to any financial and relevant information which enable them to discharge their functions effectively and efficiently. Besides internal assistance being available, the Audit Committee may request for assistance and advice from external auditors as and when they think necessary at the expenses of the Company. The Audit Committee should liaise with the Board and senior management and the Audit Committee must meet at least twice a year with the external auditors. In addition, the Audit Committee should meet with the external auditors without the presence of the executive Directors to discuss the Group's financial reporting and any major and financial matters arising during the year under review at least once a year.

In addition, the Audit Committee is authorized:

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

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

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

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

Remuneration Committee

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

Two Remuneration Committee meetings were held during the year ended 31 December 2017. At the meetings, the Remuneration Committee reviewed remuneration policy and packages of the Directors and senior management and information regarding the directors' remuneration in the interim report and the annual report and made recommendation to the Board for approval. The individual attendance record of each member of the Remuneration Committee is tabulated as follows:

Name of Member	Number of meetings held while being a Member	Number of meetings attended
Mr. LOU Dong *(Chairman)*	2	2
Ms. LU Hong	2	2
Mr. ZHU Wenjun	2	2

The remuneration of members of the senior management (including all executive Directors) by band for the year ended 31 December, 2017 is set out below:

Remuneration bands *(RMB)*	Number of person(s)
0 to 1,000,000	3
1,000,001 to 2,000,000	1
2,000,001 to 3,000,000	1

Nomination Committee

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

One Nomination Committee meeting was held during the year ended 31 December 2017. At the meetings, the members of the Nomination Committee executed the major duties and responsibilities which are provided below. The individual attendance record of each member of the Nomination Committee is tabulated as follows:

Name of Member	Number of meetings held while being a Member	Number of meetings attended
Mr. CHAI Chaoming *(Chairman)*	1	0
Dr. LOU Dong	1	1
Mr. DAI Jianchun	1	1
Ms. LU Hong	1	1
Mr. REN Hao	1	1

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

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

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

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

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

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

– to review the board diversity policy.

If considering the appointment of directors, the Nomination Committee will assess the candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively, as well as independent factors as required under the Listing Rules, etc., and make recommendations to the Board for approval accordingly.

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

BOARD DIVERSITY POLICY

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

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

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' acknowledgement

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

In preparing the financial statements for the year ended 31 December 2017, the Directors have adopted appropriate and consistent accounting policies and made prudent and reasonable judgments and estimations. The financial statements for the reporting year have been prepared on a going-concern basis.

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

Auditors' Remuneration

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

The fees in respect of audit services provided by KPMG for the year ended 31 December 2017 amounted to approximately RMB2.25 million.

Risk Management and Internal Control

The Board acknowledges its responsibility for maintaining sound and effective risk management and internal control systems of the Group and reviewing their effectiveness on an ongoing basis. The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit Committee. Management has provided a confirmation to the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2017. The risk management and internal control systems are designed to manage, not eliminate, the risks of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The main framework of the Group's risk management and internal control systems at each level are summarized as follows:

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

Process Used to Identify, Evaluate and Manage Significant Risks

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

Risk Identification and Assessment

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

Risk Monitoring and Reporting

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

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

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

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

Dissemination of Inside Information

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

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

– is well aware of its obligations under the Listing Rules and the overriding principle that information, which is considered as inside information, should be disseminated to the Shareholders and published promptly when it is the subject of a decision;

– conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission;

- informs all Directors, senior management and related staff of the latest regulations and requirements according to the letters issued or announcements published by the Stock Exchange;
- has developed procedures and mechanisms for the disclosure of inside information;
- has included in its employees' code of conduct a strict prohibition on the unauthorised use of confidential, sensitive or inside information, and has communicated such prohibition to all staff; and
- has established and implemented procedures for responding to external enquiries about the Company's affairs. For example, only Chairman, Chief Executive Officer and delegated executive Directors can act as the Company's spokespersons and has authority to respond to enquiries on designated topics.

Whistle Blowing Policy

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

COMPANY SECRETARY

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

According to the Rule 3.29 of the Listing Rules, the Company Secretary has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2017.

SHAREHOLDER AND INVESTOR RELATIONS

Communication with Shareholders and Investors

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

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

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

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

The individual attendance record of the Directors at the 2017 annual general meeting ("**AGM**") is tabulated below:

	AGM
Executive Directors	
Mr. HU Changyuan *(Chairman)*	1
Mr. HU Minglie *(Chief Executive Officer)*	1
Mr. CHEN Jianhua	1
Mr. REN Hao	1
Mr. ZHU Wenjun	1
Non-executive Director	
Mr. DAI Jianchun	1
Independent Non-executive Directors	
Mr. CHAI Chaoming	1
Dr. LOU Dong	1
Ms. LU Hong	1

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

SHAREHOLDERS' RIGHTS

Procedure for Shareholders to put forward enquiries to the Board

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

Procedures for Shareholders to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles of Association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Shareholders to put forward proposals at general meetings

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

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

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

CONSTITUTIONAL DOCUMENTS

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

1. MANAGEMENT OF SOCIAL RESPONSIBILITY

1.1 Concept of Social Responsibility

The scope of this Report includes the operating subsidiary of Huan Yue Interactive Holdings Limited ("**Huan Yue Interactive**") for copper plates and strips business, Ningbo Xingye Shengtai Group Ltd. ("**Company**" or "**Xingye Shengtai**"). The Company's 2017 annual business income accounted for more than 99% of the total annual income of Huan Yue Interactive. Meanwhile, this Report also discloses the information on performance of the social responsibility by Shenzhen Zhangyue Network Technology Co., Ltd. ("**Zhangyue Technology**"), a game business operating subsidiary under Huan Yue Interactive.

Concept of Social Responsibility

As a leading manufacturer of high precision copper plates and strips industry in China, the Company leads its own sustainable development by setting up its vision – to become a professional and international first-class cooper alloy plate and strip provider, and by upholding its operating concept – employees feel happy, customers feel touched, shareholders feel satisfied and itself is recognized by the society.

The Company is of the view that operating in good faith, and strict compliance with laws and regulations is the basic principle for business operation but also the foundation for corporate social responsibility. Based on this, the Company fully respects and practically protects the legal interests and rights of stakeholders, improves the mechanisms for communication with internal and external stakeholders, and closely cooperates with stakeholders, so as to improve the Company's operation and management and also its sustainable development competition ability and share its prosperous development results with stakeholders.

As to environment, the Company actively advocates "green and harmonious development", carefully carrying out the national energy saving and emission reduction policies and the responsibility system for the Company's energy saving and emission reduction goals, so as to enhance the protection of the environment of the community where it operates and the nature.

As to employees, the Company regards "family" culture as the core of its culture, i.e. "family caring, family growth, green home, healthy culture, Xingye culture, family quality", based on which it aims to build a happy home and create a safe, healthy and pleasant working environment for all employees to help achieve co-existence and co-prosperity of both the Company and the individuals, thus, achieving sustainable development of the Company.

As to customers, the Company upholds a concept of "win-win cooperation, and development together". It always provides the products with best quality to its customers. It strengthens improvement in its "customer demand and quality first" oriented customer service system and quality service system. It also continues to push forward technology R&D, product R&D, process R&D, and scientific innovation and speeds up its development towards intelligent manufacturing.

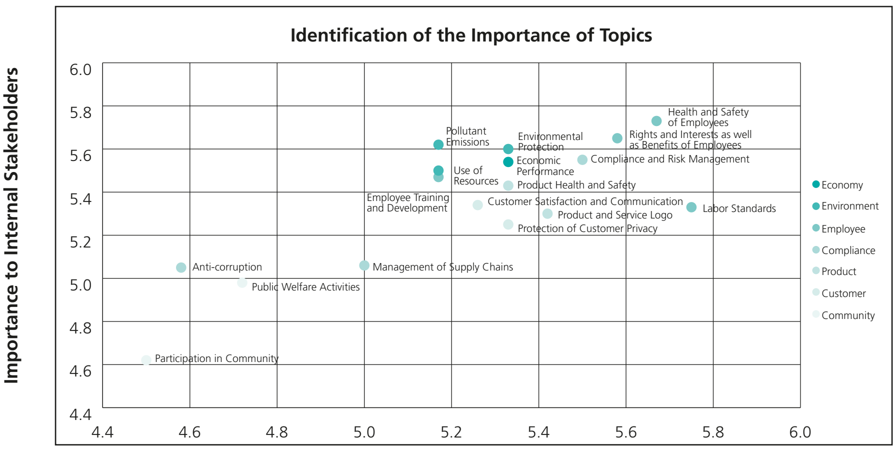
As to community, the Company insists on giving back to the society, carries out volunteer activities, participates in caring donations, university scholarship and many other projects of investment in community. It devotes to becoming an excellent corporate citizenship who makes its employees proud of, satisfies its shareholders, is trusted by customers and respected by the society.

1.2 Analysis of Substantial Topics

Communication with Stakeholders and Identification of Topics on Social Responsibility

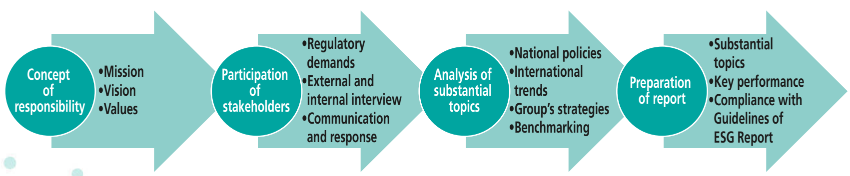
The Company pays great attention to communicating with all stakeholders, making respectful and timely responses to their reasonable demands, and keeping long-term and healthy cooperation relationships with them to promote together the development of the industry, society and economy and also sharing the prosperous development results.

In accordance with the Requirements for Guidelines of ESG Report of HKEX, by referring to GRI Sustainable Development Report Guidelines (G4) and domestic and international industrial disclosure of related topics, through fully taking into consideration the Company's strategic directions and operation focus, the requirements and expectations of the stakeholders, related domestic and international standards and policies, the Company understood the stakeholders' main topics of concern by conducting questionnaire survey, interview, and many other methods, and through the process of identifications, assessment and screening, and then analyzed the importance of such topics before sorting, in order to which topics as to the environment, society and governance were to be reported and disclosed in this Report.



Flow of Preparing this Report

In order to better disclose to all stakeholders the Company's practice as to the environment, society and governance, the Company has prepared and published this Report since 2016, aiming to, through this Report, disclose to the investors the Company's performance of its non-financial indicators, convey its concept as to its responsibilities, but also enable this Report to become an important tool to improve the Company's transparency in all aspects and strengthen the Company's responsibility as to environment, society and governance.



2. PRODUCT RESPONSIBILITY

2.1 Product Quality and Innovation

Quality Control

The Company strictly complies with the *Product Quality Laws of the People's Republic of China* and many other related laws and regulations, and also operates business legally and in good faith. The Company has developed its systems such as, Control Procedures for Product Monitoring and Surveying, Inspection Procedures for Finished Product. It sets standards in the inspection of incoming materials, inspection of production process from the raw materials to the finished products, and final inspection of the finished products prior to delivery. It delegates the Quality Management Department to be responsible for the inspection and management of such procedures. In addition, for any product that has been delivered but may bring hidden dangers to the environment or safety or have any quality problem, the Company has also developed Procedures for Recall of Product, in order to timely notify relevant parties in case of occurrence of any such issue. During the reporting period, the Company has not occurred any product recall event.

The Company's quality management system passed ISO/TS 16949:2009 certification in 2016 and GB/T 19001-2008 idt ISO9001:2008 certification in 2017.

Product Responsibility Performance Table

Indicators	**Unit**	2015	2016	**2017**
Percentage of products that must be recalled for safety and health reasons in the total products that have been sold or delivered	%	0	0	**0**

Technology Innovation

The Company has built corporate technology centers at the provincial level and, in terms of production, has long cooperated with learning and research institutions of higher education and scientific research institutions, such as Massachusetts Institute of Technology (MIT), General Research Institute for Nonferrous Metals, Jiangxi University of Science and Technology, Shanghai University, Northeastern University, to carry out systematic technology innovation activities, and to strengthen R&D capabilities. In 2014, the Company was awarded the title of high-tech technology corporate for three year until October 30, 2017.

The Company obtained governmental subsidies for several scientific and technological innovation projects.

In 2017, the Company obtained RMB21.739 million of governmental subsidies for its scientific and technological innovation. Such subsidies were respectively:

- RMB13.116 million of subsidies granted by Economic Development Board of Hangzhouwan New District, Ningbo City in 2016 for One Policy for One Corporate for Vigorous Development of Industry;

- RMB200,000 of subsidies granted by the Bureau of Human Resources and Social Security of Hangzhouwan New District, Ningbo City in 2014 and 2015 for municipal corporate technology innovation team;

- RMB3.1883 million of subsidies granted by Economic Development Board of Hangzhouwan New District, Ningbo City in 2016 for special funds for industrial and information development;

- RMB1.0681 million of subsidies granted by Bureau of Commerce of Hangzhouwan New District, Ningbo City in 2017 for Central Foreign Trade and Commerce Development (2016 Import Discount Project).

Furthermore, the Company also actively participated in manufacturing industrial technical transformation projects of Ningbo City and introduced a 25 thousand tons p.a of technical transformation project for the electronic copper strip production line with copper nickel silicon lead frame and with superlarge scale integrated circuit. In March, 2017, this project passed the completion acceptance inspection by expert group. The total investment for this project was RMB401 million. Upon completion, the Company's production capacity of such production line reached 25,000 tons p.a. For this project, the Company adopted advanced production equipment, which helped reduce electricity consumption, and also adopted BA annealing technology and project, which helped shorten the project flow and save energy consumption.

Technology Innovation Performance Table

Indicators	**Unit**	2015	2016	**2017**
Fund input for technology innovation and R&D	RMB10,000	11,730	15,340	**11,062**
National awards and subsidies for technology innovation and R&D	RMB10,000	1,937.5	971.7	**2,173.9**

2.2 Customer Service

The Company always insists on being honest to customers and customer-oriented and focuses on providing good service in selling products and after-sale service, and it has won the customers' trust, support and affirmation. In order to meet the requirements of the customers and other relevant parties to the maximum extent to help the Company achieve its strategic goals, the Company has established a process management system to identify value creation process and key support process, for which, the Company conducted process design, implementation and continuous improvement. The Company's contract performance rate reached 100%. The Company made sure to establish healthy and good cooperation relationships with its partners to create a high-integrity corporation.

The Company has established its main customer information inquiries, transaction and complaint channels and delegated personnel to develop relevant specific methods and measures for this. Meanwhile, it has developed Control Procedures for Customer Feedback and improved related mechanisms for handling customer complaints. Upon occurrence of a general customer complaint, related department would take emergency measures and make a response within 24 hours and decide who to take the responsibility within 48 hours. The department found responsible would need to reply to the customer and notify the customer of the solution within three (3) business days and finish handling such complaint within fifteen (15) business days with customer satisfied.

Customer Service Performance

Indicators	**Unit**	2015	2016	**2017**
Number of customer complaints due to product quality or service	Number	1,062	1,142	**1,338**
Complaint handling rate[1]	%	100	100	**100**

Remark 1: The complaint handling rate in this Report was calculated using the following formula:

$$\text{Complaint handling rate} = \frac{\text{Number of complaints handled}}{\text{Total number of complaints received}} \times 100\%$$

Protection of Customer Information

The Company follows relevant requirements of Law of the People's Republic of China on *Protection of the Rights and Interests of Consumers* and has established a customer information and privacy protection mechanism to properly store and keep confidential such information and privacy to fully respect and protect the legal interests and rights of customers. As at 31 December 2017, no customer information or privacy leakage event has ever occurred.

Service for Customer Complaint

The Company conducts monthly analysis and evaluation of customer complaint events. The Company also provides occasional training on professional knowledge to employees to strengthen their service consciousness and professional quality and improve their service quality, thus, helping them efficiently solve the customer complaints and problems and increasing customer satisfaction. The Company focuses on communication with customers. Each year, it holds, on an average basis, 220-280 hours of customer training sessions, in which, 40-50 customers participate.

2.3 Protection of Intellectual Property Rights

The Company adheres to the related requirements of *Patent Law of the People's Republic of China* and *Trademark Law of the People's Republic of China* to protect the Company's assets and resources (including trade secrets and proprietary information) from illegal, unauthorized or irresponsible use, including protecting the Company's owned patents, trademarks, copyrights, trade secrets and other forms of intellectual property rights from unauthorized use or improper disclosure.

We respects to our maximum extent and protects at an equal level any third-party asset used by the Company, confidential information disclosed to us by any third party, and any intellectual property rights owned by other individuals or organizations.

In 2017, the Company was granted 3 trademarks respectively by the United States, Japan and Korea. In 2015, the Company was granted Zhejing provincial famous trademark effective until December 31, 2017, by Administration of Industry and Commerce of Zhejing Province. Until now, the Company has not occurred any infringement or rights protection events.

Intellectual Property Rights Management Performance Table

Indicators	**Unit**	2015	2016	**2017**
Number of patent applications	Piece	6	12	**5**
Number of patents granted	Piece	2	1	**6**
Number of trademark applications	Piece	0	1	**0**
Number of trademarks granted	Piece	0	0	**0**

3. RESPONSIBILITY FOR EMPLOYEES

3.1 Employment and Rights and Interests of Employees

Equal Employment

The Company fully follows the *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Provisional Regulations on Enterprise Information Publicity, Law on the Protection of Minors of the People's Republic of China, Trade Union Law,* and *Law on the Protection of the Rights and Interests of Women of the People's Republic of China*. The Company always insists on fair, impartial and open employment principles and never hired any minor labor. The Company strictly prohibits any discrimination based on sex, region, religion, race and culture background of employees. The Company insists on equal pay for equal work and each employee shall enjoy the right of equal employment.

Rights and Interests of Employees

The Company has a complete Manual for Employees which covers the provisions for all rights and interests of employees, including employment, remuneration, social insurance, employee benefit, employee discipline, overtime work, holidays, leave, promotion and safety production and etc.

The Company complies with laws and regulations related to labor and human rights. The Company has established complete remuneration and benefit systems and entered into laber contracts with its employees according to the relevant laws and regulations. In addition to endowment insurance, medical insurance, unemployment insurance, employment injury insurance and maternity insurance as required by China, the employees also could enjoy housing provident fund and extra transport subsidy, food subsidy, overtime subsidy, high temperature subsidy, and insurance against accident risk during commute between home and work place. The Company fully paid social insurance and provident fund for all employees on time according to relevant national standards.

The employees shall enjoy rest and holiday system according to relevant provisions of the *Labor Law of the People's Republic of China*. Work hour examination and approval system was implemented for front-line workers, which shall be approved by the trade union and workers congress. The Company provided subsidies to those employees who worked overtime on holidays. The Company's minimum employee salary standard was passed by the workers congress in August 2017 and implemented by 1.1 times the salary standard of Ningbo City, i.e. RMB1,880. The average salary growth was far higher than salary growth guide line of Ningbo City.

In addition, the Company also devotes to building a happy home based on "family caring, family growth, green home, healthy culture, Xingye Culture, family quality", which was the core of its corporate culture. Based on this, it provided free dormitory accommodation for its employees and shuttle bus to pick up employees when they were off duty. The Company also established employee mutual fund, from which, employees or their families may benefit when they were in illness.

In order to better protect the legal rights and interests of the Company's female employees, the trade union, on behalf of all female employees, has negotiated and entered into *Protection of Rights and Interests of Female Employees Agreement* with the Company, according to the provisions of relevant laws, regulations and policies, such as *Labor Law of the People's Republic of China, Trade Union Law of the People's Republic of China, Measures for Labor Protection of Female Workers in Zhejiang Province* and in the principle of voluntariness. All female employees were protected under such agreement.

The female employees and male employees shall enjoy equal pay for equal work. The female employees shall also enjoy democratic management right. The Company selected female representatives of the trade union in proportion to the ratio of female employees to all employee. Female employees participate in all process of equal negotiation and signing collective contract and salary collective agreement. The Company's labor dispute mediation committee kept a certain percentage of female representatives. The female employees can enjoy any benefits provided by the state and also more caring from the Company when they were in pregnancy, lactation and confinement.

Information of Employment and Rights and Interests of Employees Table

Indicators		**Unit**	2015	2016	**2017**
Total Employees		Person	1,038	1,051	**1,151**
By gender	Male	Person	874	885	**955**
	Female	Person	164	166	**196**
By employment type	Labor contract system	Person	1,020	1,027	**1,099**
	Rehiring after retirement	Person	18	24	**52**
By age group	>50	Person	168	187	**168**
	30-50	Person	567	573	**673**
	<30	Person	303	291	**310**
By region	Mainland employees	Person	1,037	1,051	**1,148**
	Foreign employees	Person	1	2	**3**
Turnover rate[1]		%	18.97	24.44	**22.21**
By gender	Female	%	10.22	18.22	**20.36**
	Male	%	20.92	33.51	**29.51**
By age group	>50	%	5.29	10.84	**6.09**
	30-50	%	20.53	26.24	**20.62**
	<30	%	22.34	35.47	**44.47**
By region	Mainland employees	%	18.97	24.44	**22.21**
	Foreign employees	%	0	0	**0**
Number of labor dispute events		Number	0	0	**0**
Benefits	Fund input for all kinds of subsidies, free shuttle bus and dormitory accommodation	RMB10,000	791	911	**974**
	Number persons who benefit from all kinds of subsidies, free shuttle bus and dormitory accommodation	Person	1,004	1,007	**1,109**

Remark 1: In this Report, the employee turnover rate was calculated by the following formula:

$$\text{Employee turnover rate} = \frac{\text{Number of employee turnover during the reporting period}}{\text{Number of employee at the beginning of the reporting period} + \text{Number of new employee during the reporting period}} \times 100\%$$

3.2 Occupational Health and Safe Production

Occupational Health

The Company, as per *Law of the People's Republic of China on Prevention and Control of Occupational Diseases* and *Regulations on Prevention and Control of Occupational Disease of Zhejiang Province*, has developed a series of occupational health systems, including 13 related systems, such as, *Responsibility System for the Prevention and Control of Occupational Hazards, Warning and Notification System for Occupational Hazards, Declaration System for Occupational Hazards*.

In order to strengthen the Company's prevention and control of occupational diseases and also enhance the responsibility for management as to prevention and control of occupational diseases, the Company has established occupational disease prevention and control leading group and working group led by the management leaders and also delegated special personnel responsible for each workshop and each department in terms of this work. For those female employees in their pregnancy, lactation and confinement, the Company provided them special protection and made appropriate adjustment to their work. The Company's occupational health and safety management systems are in line with GB/T 28001-2011 idt OHSAS18001:2007 standards. The Company obtained occupational health and safety management system certification in 2017.

Safety Production

The Company has developed system for investigation and management of potential risks, management system for safe production goals, system for special emergency plan management of safety production accidents, and mechanisms for safety operation, monitoring of major hazard sources, continuous improvement in performance evaluation, emergency rescue, as well as accident report, investigation and handling. Meanwhile, the Company also has developed overall emergency plan for production safety accidents, which has been examined and approved by Administration for Safety Production Supervision of Hangzhouwan New District, Ningbo City, where the Company operates. The file No. of the emergency plan for production safety accidents is 330217000000-2016-00016.

In order to reach the safety production goals, the Company has developed safety production assessment measures and required all departments and workshops to execute such measures in their daily work. Each department shall at least conduct a self safety inspection monthly.

In order to standardize the procedures for handling any occupational injuries, the Company has developed supplementary regulations on management of occupational injuries. Each month, the Company's target is to have zero general occupational injury. In order to prevent any occupational injuries, the Company places warning labels or marks in the major areas of the plant, so as to improve the employees' awareness to prevent such injuries and protect themselves. Also, the Company engages the service of qualified and professional safety institutions to provide its employees with regular education training and guidance in this aspect, to ensure in-place inspection and rectification of hidden dangers in safety and improve the safety management system. In 2017, there were 4 employees scratched due to misoperation. In 2017, loss of working days due to occupational injuries decreased by 63.64% on a year-to-year basis.

Each year, the Company conducts special inspection of the fire-fighting facilities within the whole plant and regular fire-fighting emergency drills in which all employees participated. The Company's volunteer fire brigade provides trainings twice per month on rescue by using automatic fire pump water, so, if any problem is found, it will be rectified in a timely manner. The Company passed the examination by State Administration of Work Safety and was awarded Third-level Enterprise (Hazardous Chemicals) Certificate in Standardization and Third-level Enterprise (Nonferrous Metal) Certificate in Standardization.

Occupational Health and Safe Production Performance Table

Indicators	**Unit**	2015	2016	**2017**
Number of employees found engaged in work in which occupational health risk may exist	Person	0	0	**0**
Number of employees suffering occupational diseases	Person	0	0	**0**
Incidence of occupational disease	%	0	0	**0**
Percentage of employees receiving occupational physical examination among those who are engaged in work in which occupational health risk may exist	%	100	100	**100**
Number of work-related fatalities	Person	0	0	**0**
Ratio of work-related fatalities	%	0	0	**0**
Loss of working days due to occupational injuries	Days	800	850	**400** [2]
Person times of safe production training	Person Time	2,024	2,529	**2,865**
Number of safe production training	Number	62	68	**86**
Total input for safety operation[1]	RMB10,000	678	750	**985**
Number of emergency drill activities	Number	2	2	**3**
Number of employees participating in emergency drill activities	Person Time	120	150	**207**
Number of violation of safety laws and regulations events	Number	0	0	**0**
Number of major accidents	Number	0	0	**0**

Remark

1: In the table above, the total input for safety operation was mainly used for providing labor protection supplies, adding safety protection facilities, safety production education training, consultation on safety evaluation, assessment of emergency plan, drills, input for fire-fighting facilities, and etc.

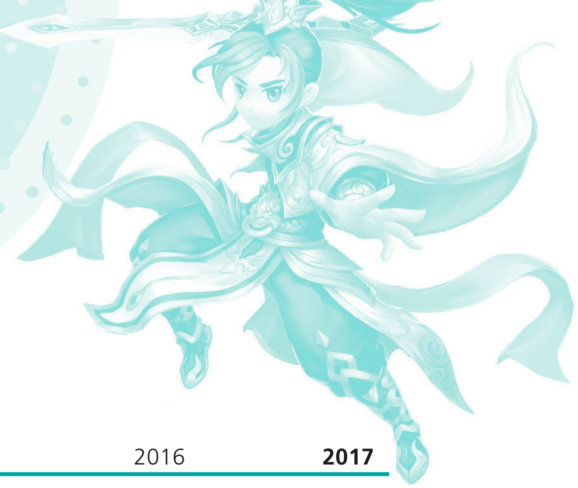
2: In 2017, there were 4 employees scratched due to misoperation, for each of whom, occupational injury assessment was conducted.

3.3 Development and Training

The Company clearly specifies the responsibilities of each post. Each year, the Company conducts skill matrix assessment for each employee. By virtue of effective management of human resources, the Company clarifies with the employees their own responsibilities in the Company's management system and the product realization process, in order to ensure all employees are competent for their own posts. The Company pays attention to building occupational development platforms for its employees. The Company, through equal and impartial assessment and promotion policies, encourages employees to work hard and learn hard to improve their own overall ability.

Each year, the Human Resources Department conducts an investigation on the training demands of employees at different ranks, then, it proposes annual training plans according to needs for the Company's development and the needs for skills for posts, in order to provide both profession-related training opportunities and work unrelated training opportunities for employees to improve their overall quality. The main training for employees includes: recruitment training, post training, professional skill training, compliance training, environmental protection training, job transfer training, occupational health and safe production training, as well as special post skill training. In order to improve the training quality and make the training more targeted, all trainings are recorded, filed and assessed.

Each year, the Company organizes reading meetings and opened youth cadres training class for reserving young management talents for the business development. In addition, the Company also opened Xingye junior college class to help front-line workers improve their level of culture knowledge. In 2017, the Company organized for a part of employees to participate in training of "the unity of knowledge and action" put forward by Wang Yangming and Inamori Kazuo management, and to visit knowledge and culture spots, so as to promote Chinese cultures among employees.



Employee Training Performance Table

Indicators	Unit	2015	2016	2017
Person Times of Employee Training	Person Time	2,566	1,910	**2,952**
Input for Employee Training	RMB10,000	89.42	95.53	**53.91**
Percentage of Employees Trained	%	100	100	**100**
Percentage of Male Employees Trained	%	100	100	**100**
Percentage of Female Employees Trained	%	100	100	**100**
Percentage of Junior Employees Trained	%	100	100	**100**
Percentage of Middle Level Employees Trained	%	100	100	**100**
Percentage of Senior Employees Trained	%	100	100	**100**
Average Training hours per employee	Hour	18.4	21.4	**26.6**
Average Training hours per male employee	Hour	19.2	21.9	**27.3**
Average Training hours per female employee	Hour	17.8	20.7	**25.8**
Average Training hours per junior employee training	Hour	16	20.2	**26.1**
Average Training hours per middle level employee	Hour	53	67	**46**
Average Training hours per senior employee	Hour	45	58	**35**

3.4 Communication with Employees and Caring for Employees

In order to keep equal dialogues with employees, the Company has established trade union, workers congress and internal mediation committee. The Company also kept improving the workers congress system and open plant affairs system in order to ensure the employees enjoy the right to know, participate, express and supervise. The trade union and workers congress need to carefully perform their duties to actually protect the legal rights and interests of the employees.

In order to mitigate the worries of the employees and help them settle down easily, the Company has launched employee house purchase subsidy plan and interest-free loan plan. Benefiting from these plans, those employees who had difficulties in their life would receive appropriate economic subsidies. This may make them feel the warmth of the collective. Each year, the main front-line employees could enjoy physical examination. Each summer, the Company gave out summer supplies and subsidies to all employees. In Mid Autumn Festival, the Company also gave out Mid Autumn Festival gifts to all employees and invited the parents of advanced employees to the plant to participate together in the Mid Autumn Festival activities organized by the Company. This move was made to help its employees achieve their wish to be filial to their parents. During Chinese Spring Festival, to celebrate the spring festival, the Company provided collective New Year's Eve dinner for migrant workers and experienced workers who stay in the plant. Each year, the Company organizes summer camp activities for children of migrant workers. For this, the Company and the local elementary school reached an agreement. According to such agreement, the Company, at its expense, hired teachers and provided all kinds of teaching materials and auxiliary tools. Until now, the Company has successfully held such activities for 4 years and invested a total of more than RMB350,000.

In order to enrich the employees' life outside of work, the Company has established employee activity room, light basketball room, gym, and reading room, as well as many interest groups and often organized all kinds of sports activities. All facilities for such activities were provided at the expense of the Company and the trade union. The Company held meetings occasionally for better communication with employees. In addition, the Company also organized health training, paid attention to the physical and mental health of employees and organized cultural activities all year long.

Employee Caring and Communication Performance Table

Indicators	**Unit**	2015	2016	**2017**
Number of employees receiving free shuttle bus benefits	Person	250	225	**230**
Number of employees receiving free dormitory accommodation benefits	Person	200	210	**215**
Fund input for free shuttle bus and dormitory accommodation benefits for employees	RMB10,000	68	70.5	**184**
Employee satisfaction survey	Points	89.5	90.2	**89.7**

4. RESPONSIBILITY FOR ENVIRONMENT

4.1 Environmental Management

Establishment of and Improvement in Environmental Management System

For the copper processing business, the Company purchases refined copper or bright copper among other quality copper raw materials. Then, after a complete set of processes, such as, melting, rolling, thermal treatment, cleaning, finishing and packaging, the Company produces high precision copper plates and strips products from such materials. During the production process, the main resources consumed included water, electricity, natural gas, and etc. and the emissions are mainly carbon dioxide, waste gas, waste water, zine oxide, and etc.

The Company continues to improve all environmental protection management systems, and carefully enhances all measures in respect of purchases, storage and transportation, production and sales for preventing occurrence of any emergency and for handling any such emergency. The Company, according to the requirements of related national and industrial standards, has developed a series of environmental protection related systems, such as *Procedures for Environmental Management, Management System for Wastes*. Meanwhile, the Company also identifies all factors impacting the environment within the Company before developing appropriate control measures. The Company has completed the preparation of *Emergency Plan for Environmental Emergencies* before filing it with the environmental protection bureau of the Hangzhouwan New District. This improved the Company's ability to actively respond to any possible environmental pollution emergency.

The Company's environmental management systems are in line with GB/T 24001-2004 idt ISO 14001:2004 standards. In 2017, the Company obtained environmental management systems certificate which is effective for three (3) years. In addition, the Company legally executed the systems for simultaneous management of new, reconstruction and extension projects. For all projects, the Company conducts environmental impact assessment (EIA) as per China's related environmental protection laws and regulations. Meanwhile, the Company designed, constructed and put into production and use simultaneously corresponding environmental facilities of such projects and the main body engineering of such projects.

The Company invested a total of RMB12.875 million and RMB13.17 million in 2016 and 2017, respectively, for waste water treatment, dust elimination, acid fog processing, plant ventilation, equipment upgrading, and etc. In the past three years, the Company did not occur any pollution accidents or disputes, nor committed any acts in violation of national environmental protection laws or regulations.

Strengthening the Responsibility System for Environmental Protection

The Company has set up special environmental protection supervision and inspection management institutions, arranged special responsible personnel for environmental protection, enriched environmental protection supervision and inspection management personnel at all levels, and further clarified the responsibilities of leaders at all levels, departments and employees for environmental protection.

In early 2017, the Company has developed its annual environmental safety and health work targets and tasks. It required all business departments and workshops to ensure zero occupational injuries, serious injuries, serious fire disasters, grand larcenies, transport, environmental pollution, occupational health accidents and cases. The Company controls the common environment pollution accidents at zero each month. Meanwhile, in order to improve the awareness of all employees as to environmental protection and safety production, the Company regularly provides all employees with environmental protection and safety production themed trainings and conducts assessments thereof. The Company provides such themed trainings for front-line employees at least once per month. In 2016, a total of 780 employees participated in all kinds of such themed trainings. In 2017, a total of 808 employees participated in such themed trainings.

4.2 Use of Energy Resources

Use of Energy

The energy used by the Company mainly includes electricity, natural gas and petroleum and natural gas. Each month, the Company calculates the monthly consumption of energy of each equipment, and reports it to National Bureau of Statistics of China and Energy Inspection Center of Zhejiang Province. The Company has clarified to include energy saving and emission reduction into the assessment content of all workshop sections, workshops, work groups and beds, further improved rules to implement the work as to energy saving and consumption reduction, and established incentive mechanisms to save energy and reduce emissions. The Company has developed its goals for use of energy in active response to the indicators which would be assessed by the municipal government of Ningbo City. In 2017, the Company planned to reduce 4.3% of energy consumption per RMB10,000 of industrial output value and also reduce 4.3% of energy consumption per RMB10,000 of industrial added value. However, in 2017, such two ratios reached 11.9% and 4.4%, respectively.

In order to practically strengthen the Company's management of and lead in energy saving and emission reduction work, in the first half of 2017, the Company has developed upon research *Programs for Implementation of Energy Saving and Emission Reduction Work*. As to this work, the Company has implemented a system for top leaders to take the responsibility, and established a mechanism according to which, the leaders responsible for energy management shall be responsible for this work in person, functional departments shall execute this work specifically, while workshops at all levels shall participate and cooperate in this work, so as to achieve a linkage effect from the top down.

In order to establish and improve its monitoring network, the Company, in the principle of "focusing on the key things", has established a systematic energy saving monitoring system to mainly monitor the key equipment, focused on the work of energy saving of such key equipment, and implemented energy consumption liaison (statistics) team, so as to achieve monitoring, statistics and analysis work. The Company also recorded the basic information of the key energy consumption equipment. This laid a solid foundation for analysis and understanding of the status quo of such equipment and carrying out demonstration work as to energy saving and environmental protection as to such equipment.

Meanwhile, the Company also, centered on the theme of "energy saving, low carbon and green development", carried out energy saving publicity education, organized all employees to deeply learn the importance and urgency of energy saving and consumption reduction, and publicized the related policies of the state and the energy saving office. In high temperature seasons, the Company executed energy saving and consumption reduction, assessed energy consumption of equipment, conducted special energy inspection, developed optimized programs to use electricity, and conducted an investigation on the conditions of energy saving, etc.

Building Photovoltaic Power Project to Drive the Use of New Energy

The Company has built an 180,000 m^2 of photovoltaic power project on its plant roof by cooperation with Zhejiang Huadian Power Co., Ltd. (Huadian). Such project was invested only by Huadian, with a total of RMB83.9 million of investment, a designed full photovoltaic power of 5.6 megawatts, and a construction duration of 6 months. The project was combined to the grid and generated electricity as of December 28, 2016, with a voltage level of 10 thousand volts. It was connected to Xingye Shengtai's high voltage cabinet featured with 10 thousand volts. Since operation, it has been providing stable high quality power and reliable power supply. In 2017, it generated a total of 7,103,300 kilowatt hours of power.

The Company's Energy Saving Projects in 2017

Name of Projects	**Time to Implement the Projects**	**Investments in the Projects** *(RMB10,000)*	**Energy Saved in the Projects** *(Tons of Standard Coal Equivalent)*
Pump frequency conversion	2017.4-2017.6	16	15
Horizontal continuous casting IGBT	2017.1-2017.10	196	76
Replacement of S7/S9 transformer	2017.8-2017.10	25	27
Replacing bell electric heating with natural gas	2017.3-2017.9	260	56
Efficient water pump	2017.7-2017.9	36	12
Main motor of finishing mill	2017.9-2017.11	119	91
Re-utilization of waste heat	2017.1-2017.3	76	49
Total		728	326

Energy Environment Performance Indicators

Indicators	**Unit**	2015	2016	**2017**
Total natural gas	M^3	6,967,984	9,376,091	**9,370,359**
Intensity of natural gas use	M^3/RMB10,000 of Total Value of Output	19.37	15.5	**12.25**
Total solar energy	KWh	0	0	**7,103,300**
Intensity of natural gas use	KWh/RMB10,000 of Total Value of Output	0	0	**9.29**
Total electricity consumption	KWh	142,120,846	198,048,722	**208,224,258**
Total electricity consumption	KWh/RMB10,000 of Total Value of Output	354.24	327.46	**272.21**

Use of Water Resources and Packaging Materials

The Company is always dedicated to protecting water resources. It follows the requirements of China's existing related laws, regulations and standards to strengthen water saving, deepen use of recycled water and improve the use efficiency of water resources.

The water used by the Company mainly comes from the water company of Hangzhouwan New District. In order to improve the reuse of water resources, the Company has installed 4 acid waste water treatment lines, with an actual annual water treatment of up to 3,600,000 tons. Upon treatment, such waste water was reused in the pickling lines. In 2017, the actual annual water treatment reached 3,456,000 tons.

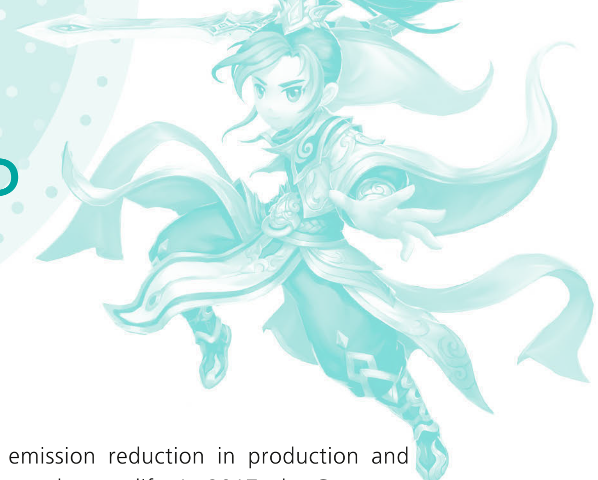
Environment Performance Indicators for Use of Water Resources

Indicators	**Unit**	2015	2016	**2017**
Total water consumption	Ton	453,516	440,400	**619,008**
Water consumption intensity	Ton/RMB10,000 of Total Value of Output	1.13	0.73	**0.81**
Reuse ratio of water resources	%	–	–	**96**

The main packaging materials of the products were timbers which were recycled for reuse by the Company. To reduce the use of and reliance on the resources was an consensus of the whole Company. Especially, the finishing sections and finished product workshops of Xingye Shengtai continued to look for methods for reducing the use of packaging materials through a series of technology transformation and innovation. In 2017, they tried their best to thin the paper substrate. Benefiting from this, they saved a total of approximately RMB300,000 in cost. Coinage copper strips project – another approved project which aimed to lower cost, also achieved its expected goals and saved approximately RMB120,000 in cost. This project reduced the paper substrate by approximately 12 tons.

Environment Performance Indicators for Use of Packaging Materials

Indicators	**Unit**	2015	2016	**2017**
Total packaging materials (timbers) used for packaging finished products	Ton	0.935	1.108	**1.547**
Use intensity of packaging materials (timbers) of each production unit	Ton/RMB10,000 of Total Value of Output	0.0023	0.0018	**0.0034**



Operation of Green Office

The Company not only makes efforts to achieve energy saving and emission reduction in production and manufacturing links, but also actively advocates a concept of green office and green life. In 2017, the Company carried out interactive activities for low carbon life initiatives, placed obvious slogans for publicity of energy saving, and, through windows, books, newspapers, Internet, etc. gave out environmental protection brochures to all employees to let them learn general knowledge about environmental protection. This aimed to practically promote the employees to keep in mind energy saving and emission reduction and environmental protection in their daily work and life, and then gradually form their conscious actions.

Furthermore, the Company also has set up special funds for green office and green life and arranged special persons responsible for planning for improvement in the environment of the plant area and the areas around. The Company's Party members constituted "Wild Cotton" volunteer service team and fulfilled the tenet of "being the most ordinary person and doing the most common thing". This was mainly to beautify the plant area and the areas around by means of help from workers. This was to promote the humanistic concerns of the Company and the surrounding community.

Environment Performance Indicators for Operation of Green Office

Indicators	**Unit**	2015	2016	**2017**
The driving kilometres of shuttle bus and vehicles for employees	Km	149,820	150,525	**151,285**
Oil consumption of shuttle bus and vehicles for employees	Liter	63,981	62,587	**63,627**
Fund input for greening the plant area	RMB10,000	30.0	25.0	**29.0**

4.3 Emission and Management of Pollutants

Disposal of "Three Wastes" Met the Standards

The Company discharges waste water and waste gas according to the requirements of the national relevant laws, regulations and standards, thus, its waste water and waste gas discharge meets the national standards. The Company also properly disposed of all kinds of hazardous wastes and general industrial wastes. It passed the national clean production examination. The Company implemented "green production and clean production". It is a demonstrative clean production corporate recognized by the local government.

On January 1, 2014, the Company obtained Zhejiang Provincial pollutant discharge permit effective until December 31, 2018. The ambient air quality reached level 2 as defined by Ambient Quality and Air Standard (GB3095 – 2012). The water environment quality reached level Ⅲ as defined by Surface Water Environment Quality Standard (GB3838 – 2002). Ecological function area reached the standards for key access area.

The production of waste water mainly include alkaline waste water, pickling waste water, and emulsified waste water. As to the discharge of waste water, the Company executes level 3 standard as defined in Comprehensive Sewage Discharge Standard (GB8978-1996). As to the discharge of ammonia nitrogen and total phosphorus, the Company referred to Water Quality Standard for Sewage Drained into Urban Sewer (CJ343-2010). The first type of pollutants of lead and nickel in the discharge outlets of workshops met "the highest allowed discharge concentration of the first type of pollutants" as defined in Comprehensive Sewage Discharge Standard (GB8978-1996). As to the discharge of total phosphorus, the Company refers to Comprehensive Sewage Discharge Standard of Shanghai City (DB31/199-1997). As to the discharge of total iron, the Company refers to Concentration Limits of Total Iron for Pickling Waste Water (DB33-844-2011). As to the discharge of total copper, the Company refers to the level 1 standard as defined in Comprehensive Sewage Discharge Standard (GB8978-1996).

The pollutants of waste gas produced during production are mainly dust from smelting and oil mist. As to the discharge of exhaust gas from annealing furnace, the Company refers to level 2 standard as defined in Standard for Discharge of Air Pollutants from Industrial Cellar (GB9078-1996). As to the discharge of oil mist from rolling, the Company refers to Standard for Discharge of Air Pollutants from Steel Rolling Industry (GB28665-2012). As to the discharge of pickling acid mist, the Company refers to level 2 standard for new pollutant sources as defined in Integrated Emission Standard for Air Pollutants (GB16297-1996). In 2017, the test of exhaust gas organized by Zhejiang Zhongyi Institute of Testing and Research showed that the Company's discharges of oil mist and sulfuric acid mist were lower than national standards.

The solid wastes and waste liquids from the production process of the Company mainly include slags, copper scraps, leftover bits and pieces, waste acid solution, waste alkali, dust from smelting, and sludge from sewage treatment stations. All hazardous wastes are collected and stored as per the requirements of China's Standard for Pollution Control on Hazardous Waste Storage, in order to prevent from leakage and then produced pollution. Flying ash from smelting, sludge containing copper, waste mineral oil and many other hazardous wastes are transferred to qualified waste disposal units for disposal. For this, the Company went through special approval formalities with Ningbo Environmental Protection Bureau and strictly executed related transfer quintuplicate vouchers system.

Actively Conducting General Inspection of Pollution Sources

The Company actively responds to the callings of various governmental departments, does a good job in cooperation, and fully understands the quantity of all kinds of pollution sources, their discharge quantity, to where they are discharged, the operation conditions of facilities for pollution control, and what is the level of the pollution control. According to the uniform deployment of the environmental protection bureau, the Company set up statistics group for general inspection of pollution sources, which is responsible for the statistics, review, registration and report of all data of copper machining, production and other related departments. This provids a basis for us to effectively improve the environmental quality, thus, helps us complete on time and with good quality the report on the data as to general inspection of pollution sources as required by municipal environmental protection bureau.

The Company installed automatic water quality monitoring and control system in the plant, standardized the sewage outlet, and, as required by the environmental protection bureau, installed online detector and flowmeter in the outlet of sewage treatment stations. The existing sewage treatment facilities operated normally. The Company arranged special persons to be responsible for, operate, and regularly examine and repair such facilities. In 2017, there was no violation of regulations.

Reduction of Discharge of Pollutants

According to the overall deployment and requirements of the governments and the Company itself as to reducing discharge of pollutants, in addition to re-organization of leaders group, careful deployment, setting up specific goals, focusing on supervision, enhancing effectiveness, the Company also regularly holds special meeting to discuss this work, fully deployed and implemented this work. It has achieved its established goals as to this work. In 2017, the rectification rate of problems was 100%.

The Company has been working on reducing the discharge of greenhouse gases. In 2017, the rooftop solar energy was formally put into operation. In addition to this, the Company also reduced the use and quantity of forklifts. In the past, the Company always relied on fuel forklifts for transport within the plant area. At present, the Company has laid and used electric rail vehicles in some workshops and, as a result, some fuel forklifts were phased out. This has greatly reduced the discharge of greenhouse gases. In 2018, we will continue to promote the use of such electric rail vehicles.

The Company carefully implements *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution from Solid Wastes, Hazardous Waste Transfer Quintuplicate Vouchers System* and many other relevant laws and regulations to standardize the Company's management of industrial solid wastes and reduce the production of industrial solid wastes and their impact on the environment. Meanwhile, the Company also developed *Measures for Management of Industrial Solid Wastes*.

According to related regulations of *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution from Solid Wastes*, the Company has developed emergency plans for hazardous wastes and for sudden environmental pollution events. The Company has also set up emergency rescue groups for hazardous wastes, clarified the duties of each group and each group member, standards for equipping with equipment for and disposal of hazardous wastes, and emergency treatment mechanisms.

Each year, the Company carries out hazardous wastes emergency drills, and organized trainings on emergency knowledge and practical exercises. Each drill would be recorded for uniform filing. On May 17, 2017, the Company organized an emergency drill to dispose of leaked hazardous wastes in the water treatment station. There were 22 employees participating in this drill. This drill lasted for a total of approximately 60 minutes and completed its expected goals. This not only exercised the employees' emergency rescue ability, but also tested the effectiveness of the environmental protection emergency mechanisms of the Company.

Strict Implementation Contributed to Continuous Improvement in the Effectiveness of Reduction of Emission

In 2017, the Company adopted non-toxic, low-toxicity, easy to degrade and recycle materials, continued to improve design, used more clean energy and raw materials, adopted advanced process technologies and equipment, improved management and integrated utilization and optimized the measures for prevention and control of pollution. As a result, the Company reduced the annual production of its flying ash from smelting, sludge containing copper, and waste mineral oil to 258 tons, 440 tons and 41 tons respectively. The foregoing wastes were transferred to professional environmental protection institutions for disposal, and integrated utilization was achieved.

Pollutant Management Performance Indicators

Indicators	Unit	2015	2016	2017
Total emissions of greenhouse gases	Ton (carbon dioxide equivalence)	15,348,687.96	20,629,764.49	**20,595,089.87**
Emissions intensity of greenhouse gases	Ton (carbon dioxide equivalence)/ RMB10,000 of total value of output	38.26	34.11	**26.92**
Total emissions of greenhouse gases (Range 1)	Ton (carbon dioxide equivalence)	15,248,705.94	20,490,437.21	**20,448,604.10**
Total emissions of greenhouse gases (Range 2)	Ton (carbon dioxide equivalence)	99,982.02	139,327.28	**146,485.77**
Sewage emissions	Ton	–	–	**625,285**
Sewage emissions intensity	Ton/RMB10,000 of total value of output	–	–	**0.8174**
Production of hazardous wastes	Ton	236.09	505.16	**650**
Production of hazardous wastes per unit output value	Ton/RMB10,000 of total value of output	0.0006	0.0008	**0.0008**
Production on non-hazardous wastes	Ton	535	866	**892**
Production of non-hazardous wastes per unit output value	Ton/RMB10,000 of total value of output	0.0013	0.0014	**0.0012**
Total non-hazardous wastes recycled for reuse	Ton	325	631	**650**
Total non-hazardous wastes buried	Ton	210	235	**242**
Times of fines imposed due to violation acts in discharge of pollutants	Time	0	0	**0**

Remark: The environment data in this section only covered Ningbo Xingye Shengtai Group Co., Ltd, the cooper business operating subsidiary under Huan Yue Interactive. Such data has been recorded in the data retrieval database of Institute of Public and Environmental Affairs (IPE) and Qingyue Environmental Protection. During the reporting period, there were no negative environment records.

5. MANAGEMENT OF TOPICS ON SUPPLY CHAIN RESPONSIBILITY

The Company observes "impartial, transparent and good-faith" sunshine purchase standards. All suppliers need to pass the Company's uniform qualification review standards and processes. Main suppliers are required to submit ISO 9000 quality certificates and environmental review reports, and we conduct field inspection of their plants. If the inspection results show that they meet the Company's standards for selection of its suppliers, they need to submit an application report to the Company's responsible person of the responsible department for review. New suppliers must go through product sampling, hand sample, batch and normal purchase processes. The Company passed Zhengjiang manufacturing system certification in 2017.

While submitting the quote for goods, suppliers also need to provide real pictures of goods, related quality test report, origin of goods, and other information. Only upon review and approval by the responsible person of the responsible department and the technology department, could a supplier enter into an import contract with us. When signing a contract, both parties include the terms on shortage in weight, quality problems, etc. into the contract and agreed in the contract that, if any problems are found after the goods are delivered to our plant, such goods shall not be used; that the Company needs to provide the details and pictures of the problems to the supplier within 24 hours; that both parties shall, through friendly consultation, engage the service of the third party notarization institution to take evidence of the goods and issue a notarial document; and that both parties shall deal with such goods as per such notarial results through friendly consultation.

Purchase Processes	Supervision Mechanisms
• Inquiry and price parity	• Report to the responsible person of the department, risk control department and assistant of general manager
• Generate order, and sign contract	• The contract is submitted to the risk control department for record.
• Open a letter of credit with a bank	• Report to the responsible person of the department and the fund department
• Pricing according to the market conditions	• Pricing department shall be responsible for pricing
• Receive documents against payment from suppliers, review such documents.	• The documents are submitted to the risk control department and the departmental responsible person for review
• Import goods, and customs declaration and inspection	• The customs and department of commodity inspection review the materials of goods
• Goods are delivered to the plant	• The raw material warehouse inspects and weigh the arrival goods
• Sort out related invoices and materials	• Financial department inspect the materials

Each year, the Company assesses the risk and performance of its all suppliers. The assessment report will be used as the standard for reviewing and selecting suppliers for the next year. The suppliers who fail to pass the review will be required to rectify or end the cooperation. As related national policies are updated from time to time, so, the Company provides irregular trainings on related policies released by customs, administration of foreign exchange and department of commodity inspection and also the purchase standards.

Supplier Management Performance

Indicators		Unit	2015	2016	2017
Total number of suppliers		Quantity	161	171	**211**
by region	local suppliers	Quantity	145	155	**195**
	overseas suppliers	Quantity	16	16	**16**
Number of visits		Number	2	1	**0**
Contractual disputes with suppliers		Piece	0	0	**0**
Hours of compliance training		Hour	18	18	**18**
Number of persons participating in compliance training		Person	2	2	**9**

6. MANAGEMENT OF TOPICS ON ANTI-CORRUPTION RESPONSIBILITY

The Company attaches importance to management as to corruption, risk control and compliance and strictly observed all laws and regulations of China. The Company carries out all production and operation activities legally. It also ensures the acts of leaders and employees are in line with the occupational conducts and commercial ethics at all levels of operation. During the reporting period, there was not any act in violation of any regulations nor any corruption lawsuit.

The Company's leaders take the lead in learning all kinds of laws and regulations to promote all employees to better know the laws and observe the laws. The Company has developed standards for professional ethics of employees, which are supervised by the responsible person of Human Resources Department and related senior leaders. The Company also has set up Legal Department to specially be responsible for providing services as to legal affairs, such as consultation, training, etc. In addition, the Company has delegated the Audit Department to be responsible for review of internal projects, agreements and etc. in order to ensure related operation activities are in line with regulations.

Anti-corruption Performance

Indicators	Unit	2015	2016	2017
Number of corruption lawsuits brought against the Company and its employees	Quantity	0	0	**0**
Number of report of corruption from employees	Quantity	0	0	**0**
Units of employees participating in compliance training	Unit	2,566	1,910	**2,952**

7. INVESTMENT IN COMMUNITY

The Company's operating concept is employees feel happy, customers feel touched, shareholders feel satisfied and itself is recognized by the society. An important support for "being recognized by the society" is participating in social public welfare activities, including providing volunteer services for the community, caring donations, and support for education cause.

Each year, the Company organizes employees to provide caring donations to the nearby residents who suffer from major diseases or are from poor families. Meanwhile, the Company also organized irregularly volunteer activities, or participated in volunteer activities organized by related departments of Hangzhouwan New District. Such activities included beautifying the Company's internal environment or the environment surrounding, planting trees, Marathon volunteer services, etc. The Company wishes to make due contributes to the social public welfare causes through such activities so that the Company can be recognized by the public.

Provide Xingye Scholarship for Elites Excellent in Character and Learning in Colleges and Universities

In order to promote the social education cause, the Company has entered into a cooperation agreement with Jiangxi University of Science and Technology. According to such agreement, the Company has provided RMB120,000 of scholarships to the University each year during 2014 to 2016 to support the elites who were very excellent in learning. In 2017, the Company again entered into an agreement for donation of scholarships. According to such agreement, the Company would donate RMB200,000 of scholarships in 4 years. In 2017, the Company has donated the scholarship, i.e. RMB50,000. Until now, the Company has provided RMB410,000 of scholarships.

Community Investment Performance Table

Indicators	**Unit**	2015	2016	**2017**
Total donations for public welfare	RMB10,000	15.69	15.67	**16.32**
Number of persons benefited from the public welfare donation projects	Person	91	97	**90**
Number of employees participating in volunteer activities	Person Time	53	75	**92**
Total hours of employees participating in volunteer activities	Hour	1,120	1,580	**1,760**

8. REPORT ON MANAGEMENT OF SOCIAL RESPONSIBILITY AS TO GAME BUSINESS

Responsibility for Environment

The operating subsidiary of game business under Huan Yue Interactive is Shenzhen Zhangyue Internet Technology Co., Ltd. ("**Zhangyue Technology**"). In the daily work and operation process, Zhangyue Technology strictly observes the national laws and regulations related to the environmental protection and the environmental protection goals of Huan Yue Interactive. It refers to 3R principle of circular economy, i.e. "save resources, reduce pollution; reuse; and classifies wastes for recycling", to systematically design and plan specific actions and programs to fully implement green office actions. It advocates saving electricity in office. It sets temperature limit for offices and places green plants in offices in order to improve the employees' office environment.

Responsibility for Employees

Zhangyue Technology implements fair, open and impartial employee policies. It has developed remuneration policies for all employees and rules for employee performance assessment according to the Company Law, Labor Law, Regulations for Implementing Labor Contract Law and many other laws and regulations. It observes the principle of equal pay for equal work. It enters into labor contracts with all employees to safeguard all legal rights and interests of each employee. It also clarifies the remuneration programs, assessment measures, standards, procedures, and also the employee complaint mechanisms. It advocates a corporate culture of equality, respect, and conclusion. It strictly prohibits any form of discrimination. It ensures female employees can enjoy the related benefits specified by the state, and no acts of using child labor and forced labor.

It Implements Equal Training Systems with High Employee Satisfaction

All employees shall enjoy equal training opportunities, regardless of their departments, ranks and sex. Each year, the Human Resources Department develops annual training plans according to the ability and knowledge level of employees and the development demands of departments and business, but also assesses the training quality and results. In 2017, 9 training sessions were held, which were mainly new employee trainings and trainings on business knowledge. The employees' satisfaction as to each training session reached 85 scores (100 scores system) on an average basis. Out of a total of 95 employees, only 72 employees were allowed to participate in such trainings as planned.

According to the related laws and regulations, such as, labor law, the Company has developed benefit policies for all employees. All employees shall equally enjoy social insurance, housing provident fund, holidays, leave, overtime and transportation subsidy, as well as extra holiday and bonus benefits as specified by the state. The Human Resources Department shall be responsible for the implementation such policies while the Financial Department shall be responsible for the supervision of the implementation of such policies.

Rich Team Construction Activities of Employees and Smooth Internal Communication

Zhangyue Technology regularly organizes employees to conduct team construction activities. Each month, Zhengyue Technology holds culture activities and sports activities such as afternoon tea, badminton contests to promote communication and exchange between internal employees. Zhangyue Technology also conducts an investigation on employee satisfaction at the beginning of each year. The investigation results showed employee satisfaction increased in 2017 compared with that in last year. When employee feedback was covered in any performance assessment, the Company communicated with the employees in a timely manner.

Responsibility for Suppliers and Supplier Compliance Management

Zhangyue Technology has set up unified processes and supervision mechanisms for purchase from suppliers. This move is to classify the suppliers for management of suppliers. Suppliers need to provide the copy of business license, and a copy of bank account permit among other qualification documents to the company's Financial Department and Commerce Department for review. Zhangyue Technology has also developed supervision mechanisms for complaints from suppliers. The Commerce Department is responsible for handling such complaints. This aims to achieve mutual benefits and mutual development with suppliers.

In order to establish good commercial orders, create good development environment, correct unhealthy tendencies in the industry, eradicate commercial bribery activities, help advocate trustworthiness and integrity and responsible moral philosophy and code of conduct, and help make efforts to pursue maximum benefits for customers, shareholders, employees and society, Zhangyue Technology has established the *Code of Conduct for Anti-bribery and Anti-corruption by the Company's Employees* (the "**Code**"). The General Manager Office shall be responsible for the supervision and management of any violation and disciplinary problems. The Code requires all employees to observe laws and disciplines, and comply with national anti-corruption and anti-bribery laws. Zhangyue Technology prohibits political donation. It has established report mechanisms and principles for fines. At present, there has been no corruption lawsuits against the company or any of its employees. Zhangyue Technology organized compliance trainings for new employees at the end of each month.

Responsibility for Products and Consumers

Zhangyue Technology has been fully protecting the legal rights and interests of consumers and making efforts to improve product quality. The game products and after-sale services the Company provides are all in line with the related national and industrial technology and safety standards.

Prior to formal operation of any game project, the R&D Technology Center and Operation Center would test the game in an all-round manner. Any problem would be fixed immediately upon it is found. In the later stage of the game operation, the Operation Center and Technology Center would as soon as possible detect and fix any problem raised by any player.

Advocating Positive Publicity, Realizing Market Purification and Protecting the Minors

Zhangyue Technology implements the spirit of the document issued by the CPC Central Committee and the State Council named *Some Opinions on Further Strengthening and Improving the Ideological and Moral Construction of Minors*, observed the self-discipline convention of China's game industry, and developed the Code of Conduct for the Company to carry out marketing publicity activities. Zhangyue Technology is dedicated to safeguarding the legal rights and interests of broad consumers, protecting the physical and mental health of minors, reducing or eliminating the possible negative impact of the games on human, and achieving the purification of the market of game industry.

The Code mentioned above required that all of the Company's publicity acts and contents must strictly be in line with the related national laws and regulations; that the Company shall, in the scientific attitude of seeking truth from facts, not carry out false propaganda, nor publish content of low taste; that the Company shall, from the perspective of protecting the physical and mental health of the minors, actively play a positive role in guiding young people to be positive; and that the Company shall make more efforts to propagate and promote the excellent traditional culture of the Chinese nation, strengthen national cohesion, love China and maintain the reunification of the motherland.

From the perspective the experience of consumers, Zhangyue Technology has designed product evaluation report, consumer experience and assessment report. It is dedicated to providing the users with the best game experiences. The products have been in line with the performance and quality standards as promised in the introduction or service agreements.

Zhangyue Technology focuses on the active impact of its products on the users and the society. It is dedicated to creating a healthy environment for users and the Internet. It introduced anti-violence, anti-pornography, and anti-addiction mechanisms for each of its products. It designed healthy game advice on the login and loading pages of each game. Users under the age of 18 would be included into the anti-addiction system and get punished if they exceed the specified time.

Customers Come First Helped Achieve "Zero" Complaint

According to *Provisional Measures for Management of Online Games* and *Notice on the Implementation of 'Provisional Measures for Management of Online Games'* issued by the Ministry of Culture, Zhangyue Technology has developed *Personal Information and Privacy Policy for Game Users* to strictly provide for the collection and use of the personal information and privacy of users.

Zhangyue Technology complies with the provisions of related laws, such as *Law of the People's Republic of China on Protection of the Rights and Interests of Consumers*, and it has established a management mechanism for handling complaints from consumers and specified the processes and standards for handling such complaints. Such complaints were handled based on fair, friendly, legal, reasonable, equal, and volunteer principles. The Operation Center is responsible for handling complaints while the Customer Service Center was responsible for management of complaints.

Any player may contact the Customer Service Center via customer service QQ, Wechat, email, mobile, etc. for any problem found in any game. If the Customer Service Center could not solve such problem, the Customer Service Center would submit it to the Operation Center. Then, the Operation Center and the Technology Center would work out a solution together and gave feedback on the results timely to the Customer Service Center. Finally, the Customer Service Center would notice that player as soon as possible.

Zhangyue Technology received zero complaint from customers for product quality, health, safety or service reasons.

Respect Intellectual Property Rights and Lead Industrial Innovation

Zhangyue Technology respects any intellectual property right enjoyed by any others related to the game products, such as copyright, patent right, trademark right and trade secret. Zhangyue Technology conscientiously complies with national laws and regulations related to intellectual property rights and actively cooperated with related governmental department and China software industrial association game software branch in cracking down on all kinds of infringement acts.

In order to protect the intellectual property rights enjoyed by us and by any of others, Zhangyue Technology has established leader group of intellectual property rights to strengthen the management in this aspect. Zhangyue Technology encourages invention and creativity. It has developed intellectual property rights management system, patent management measures, trademark management measures, incentive measures for intellectual property rights, and entered into confidential agreements. As of the end of 2017, it has had a total of 18 game copyright applications, of which, 7 were applied in 2017.

Innovative Products and Enriched Player Experiences

Chaos Storm is a RPG mobile game developed based on Unity3D engine and round based strategy. This game uses on-hook round-based battle mode, with more vivid pictures, creating a magical world with a rich scene. Strategy upgrades. Different tactics require different strategies. Any player may improve its strength, call different teammates, use different skills and many other means to face all kinds of challenges. This game can continue to generate a variety of new items, with enriched drops. This enables players to enjoy the sense of achievement. The depth of the economic system mainly lies on the time cost. Players who have made payments will enjoy more privileges and rights for more efficient growth.

The R&D innovation is mainly reflected in: 1. Cross platform support, i.e. a single copy of code may generate code for iOS, Android and web page and many other platforms; 2. Network short links: Http shot links are mainly used for network communications, which helps load more users and save traffics; 3. Memory pool management: resources are put into the memory pool after use. When players need to use the resources again, just get them directly from the memory pool, which is faster; 4. Dissolving shader: when the monster leader disappears, dissolving shader is used, providing a visual sense of big work and producing more dazzling effect.

9. SOCIAL RECOGNITION

Honors, Certificates and Recognition in 2017	Issue Unit
GB/T 19001-2016 idt ISO9001:2015 Quality Management System Certification	Zhejiang Gainshine Assessment Co., Ltd.
ISO/TS 16949:2009 System Certification	TUV NORD
Harmonious-Labor-Relations Enterprise in Zhejiang Province	
Demonstrative Trade Union	Hangzhouwan New District Government
GB/T 28001-2011 idt OHSAS18001:2007 Standard Occupational Safety and Health Management System Certification	Zhejiang Gainshine Assessment Co., Ltd.
GB/T 24001-2016 idt ISO14001:2015 Standard Environmental Management System Certification	Zhejiang Gainshine Assessment Co., Ltd.
Third-level Enterprise in Safety Production Standardization (Hazardous Chemicals) Standard	State Administration of Work Safety
Third-level Enterprise in Safety Production Standardization (Nonferrous Metal).	State Administration of Work Safety
Zhejing Manufacturing Certification	Hangzhou Wantai Certification Co., Ltd. & Zhejiang Manufacturing International Certification Alliance
Post Doctoral Workstation of Zhejing Enterprises	Zhejiang Provincial Department of Human Resources and Social Security
China's Top 10 copper plates and strips Enterprises	China Nonferrous Metal Processing Technology Association
Ningbo Enterprise Excellent in Corporate Social Responsibility	Ningbo City Corporate Social Responsibility Evaluation Center

10. KEY QUANTITATIVE PERFORMANCE TABLE

Indicators	**Unit**	2015	2016	**2017**
Environment Scope				
Total emissions of greenhouse gases	Ton (carbon dioxide equivalence)	15,348,687.96	20,629,764.49	**20,595,089.87**
Emissions intensity of greenhouse gases	Ton (carbon dioxide equivalence)/ RMB10,000 of total value of output	38.26	34.11	**26.92**
Total emissions of greenhouse gases (Range 1)	Ton (carbon dioxide equivalence)	15,248,705.94	20,490,437.21	**20,448,604.10**
Total emissions of greenhouse gases (Range 2)	Ton (carbon dioxide equivalence)	99,982.02	139,327.28	**146,485.77**
Production of hazardous wastes	Ton	236.09	505.16	**650**
Production of hazardous wastes per unit output value	Ton/RMB10,000 of total value of output	0.0006	0.0008	**0.0008**
Production on non-hazardous wastes	Ton	535	866	**892**
Production of non-hazardous wastes per unit output value	Ton/RMB10,000 of total value of output	0.0013	0.0014	**0.0012**
Total non-hazardous wastes recycled for reuse	Ton	325	631	**650**
Total non-hazardous wastes buried	Ton	210	235	**242**
Total natural gas	M3	6,967,984	9,376,091	**9,370,359**
Intensity of natural gas use	M3/RMB10,000 of total value of output	19.37	15.50	**12.25**
Total solar energy	KWh	0	0	**7,103,300**
Intensity of solar energy use	KWh/RMB10,000 of total value of output	0	0	**9.29**
Total electricity consumption	KWh	142,120,846	198,048,722	**208,224,258**
Electricity consumption density	KWh/RMB10,000 of total value of output	354.24	327.46	**272.21**

Indicators	Unit	2015	2016	2017
Oil consumption of shuttle bus and vehicles for employees	Liter	63,981	62,587	**63,627**
Total water consumption	Ton	453,516	440,400	**619,008**
Water consumption intensity	Ton/RMB10,000 of total value of output	1.13	0.73	**0.81**
Reuse ratio of water resources	%	–	–	**96**
Total packaging materials (timbers) used for packaging finished products	Ton	0.935	1.108	**1.547**
Use intensity of packaging materials (timbers) of each production unit	Ton/RMB10,000 of total value of output	0.0000	0.0000	**0.0000**
Social Scope				
Number of events of violation in safety laws and regulations	Number	0	0	**0**
Number of major accidents	Number	0	0	**0**
Number of labor dispute events	Number	0	0	**0**
Employee satisfaction survey	Score	89.50	90.20	**89.70**

Remark: the data in the table above only was the data of Ningbo Xingye Shengtai Group Co., Ltd, the cooper business operating subsidiary under Huan Yue Interactive.

11. CONTENT INDEX OF GUIDELINES OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
Main Scopes A. Environment		
Aspect A1: Emissions		
General Disclosure A1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	4.1, 4.3. The Company has been dedicated to reducing emission of greenhouse gases, but has not formulated any policy in this regard.
KPI A1.1	The types of emissions and respective emissions data.	4.3. The emission of waste water and water gas has been meeting the environmental protection requirements specified by the local government. Each year, third party institution detects the components of the emissions. The local government does not require the Company to provide emission data of each year, so, the Company does not collect such data. The Company will follow up this work in 2018 and strive to provide such related data in the financial reports in 2018.
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.3
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.3
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	4.3

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Not any measure has been taken to reduce emission of waste gas
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	4.1, 4.3
Aspect A2: Use of Resources		
General Disclosure A2	Policies on the efficient use of resources, including energy, water and other raw materials.	4.2
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	4.2
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	4.2, 2.1
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	4.2
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	4.2
Aspect A3: The Environment and Natural Resources		
General Disclosure A3	Policies on minimising the issuer's significant impact on the environment and natural resources.	4
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	4

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
Main Scopes B. Society, Employment and Common Labor Practice		
Aspect B1: Employment		
General Disclosure B1	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	3.1, 3.4
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	3.1
KPI B1.2	Employee turnover rate by gender, age group and geographical region	3.1
Aspect B2: Health and Safety		
General Disclosure B2	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	3.2
KPI B2.1	Number and rate of work-related fatalities.	3.2
KPI B2.2	Lost days due to work injury.	3.2
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	3.2

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
Aspect B3: Development and Training		
General Disclosure B3	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.3
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	3.3
KPI B3.2	The average training hours completed per employee by gender and employee category.	3.3
Aspect B4: Labour Standards		
General Disclosure B4	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	3.1
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	3.1
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	There was not any violation.
Main Scopes B. Society, Operation Practice		
Aspect B5: Supply Chain Management		
General Disclosure B5	Policies on managing environmental and social risks of the supply chain.	5
KPI B5.1	Number of suppliers by geographical region.	5
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	5

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
Aspect B6: Product Responsibility		
General Disclosure B6	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	2.1
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	2.1
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	2.2
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	2.3
KPI B6.4	Description of quality assurance process and recall procedures.	2.1, 2.2
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	The Company will comply with related requirements and establish customer privacy protection system applicable to the Company.

Level, General Disclosure and Key Performance Indicators	Descriptions	Report Chapters
Aspect B7: Anti-corruption		
General Disclosure B7	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	6. Although the Company strictly prevented bribery, blackmail, etc. no specific related system has been established. In 2018, the Company will introduce relevant system and implement it on a trial basis.
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	6
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	6. Although the Company strictly prevented bribery, blackmail, etc. no specific related system has been established. In 2018, the Company will introduce relevant system and implement it on a trial basis.
Aspect B8: Community Investment		
General Disclosure B8	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	7
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	7
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	7

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

12. ABOUT THIS REPORT

Huan Yue Interactive 2017 Environmental, Social and Governance Report ("**This Report**" or "**ESG Report**") describes the principles of Ningbo Xingye Shengtai Group Ltd., the copper processing business operating subsidiary under Huan Yue Interactive, complies in its practice in environmental, social and governance aspects, and the efforts it made and the results it achieved in such aspects. Huan Yue Interactive wishes to release this Report to strengthen its communication with all stakeholders.

Preparation Basis

This Report is prepared in accordance with the modified *Guidelines of ESG Report* released by HKEX in 2015, and by referring to Global Reporting Initiative (GRI) *Sustainable Development Report Guidelines* (GRI G4).

Scope of Report

Organization scope: The scope of this Report includes Ningbo Xingye Shengtai Group Ltd. ("**Company**" or "**Xingye Shengtai**"), a copper processing business operating subsidiary of Huan Yue Interactive Holdings Limited ("**Huan Yue Interactive**"). The Company's 2017 annual business income accounted for more than 99% of the total annual income of Huan Yue Interactive. Meanwhile, this Report also discloses the information on performance of the social responsibility by Shenzhen Zhangyue Network Technology Co., Ltd. ("**Zhangyue Technology**"), a game business operating subsidiary under Huan Yue Interactive.

Scope of time: January 1, 2017 to December 31, 2017. Part of the presentation and data are properly traced back to the previous years.

Release cycle: The Report is an annual report.

Description of Data

Unless otherwise specifically provided in this Report, the data and cases in this Report are the actual data on the operation of Xingye Shengtai.

The unit of financial data in this Report is RMB. If there is any inconsistency between the financial data in this Report and the Company's annual financial report, the latter shall prevail.

It is mentioned in this Report that the data of Xingye Shengtai, which is a subsidiary of Huan Yue Interactive, has been recorded in the data retrieval database of Institute of Public and Environmental Affairs (IPE) and Qingyue Environmental Protection and that during the reporting period, there were no negative environment records.

Release of Report and Contact

You can download the Chinese version and also English version of this Report from the official website of Huan Yue Interactive: http://www.huanyue.com.hk. This Report is released in both Chinese and English. If there is any ambiguity in the understanding of Chinese version and English version, the Chinese version shall prevail. Should you have any questions or suggestions as to this Report, please do not hesitate to contact us via Tel: +86-574-63073311 or email:cnb@cn-shine.com.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

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

BUSINESS REVIEW

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position as well as the outlook of the Company's business are provided in the "Chairman's Statement" and "Management Discussion & Analysis" on page 4 and pages 5 to 11 of this annual report. Description of the principal risks and uncertainties facing the Company can be found throughout this annual report particularly in the section of "Management Discussion & Analysis" on page 10 of this annual report. Environmental policies and performance, compliance with the relevant laws, rules and regulations as well as relationships with employees, customers and suppliers are provided in this report and "Environmental, Social and Governance Report" from pages 25 to 62 of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the accompanying financial statements on page 86.

The Board does not recommend the payment of any dividend for the year ended 31 December 2017.

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders of the Company (the "**Shareholders**") who are entitled to attend and vote at the forthcoming annual general meeting, the register of members of the Company will be closed from 12 June 2018 to 15 June 2018, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 11 June 2018.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 167 to page 168.

REPORT OF THE DIRECTORS

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 28 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

INTEREST-BEARING BORROWINGS

Particulars of interest-bearing borrowings of the Group as at 31 December 2017 are set out in note 24 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in the share capital and reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31 December 2017 calculated under the Companies Laws of the Cayman Islands amounted to RMB797,364,000.

ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Xingye Investment Holdings Limited, a wholly-owned subsidiary of the Company (the "**Purchaser**"), Mobilefun Limited (the "**Vendor**") and Mr. Ren Hao, Mr. Tong Xin and Mr. Yang Jiong as the guarantors, entered into a sale and purchase agreement dated 21 June 2016 (the "**Sale and Purchase Agreement**"), pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Funnytime Limited at the initial consideration of HKD186,000,000.20 ("**Consideration**") subject to certain price adjustment mechanism. The Consideration shall be satisfied (i) as to HKD116,000,000 in cash; and (ii) as to HKD70,000,000.20 by issuance of 77,777,778 ordinary shares of HKD0.10 each ("**Consideration Shares**") to be issued and allotted by the Company pursuant to the general mandate granted by shareholders at the annual general meeting held on 27 May 2016. Pursuant to a letter dated 4 August 2016 from The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") addressed to the Company, the Stock Exchange granted, on conditional basis, the approval for the listing of and permission to deal in the Consideration Shares. The audited Net Income (as defined in the Sale and Purchase Agreement) of Funnytime Limited for the financial year ended 31 December 2016 exceeds RMB18,000,000 (after adjustment of VIE taxation of RMB1,830,000), accordingly Mobilefun Limited was entitled to 19,996,667 Consideration Shares pursuant to the Sale and Purchase Agreement. 19,996,667 Consideration Shares was issued in April 2017. The audited Net Income (as defined in the Sale and Purchase Agreement) of Funnytime Limited for the financial year ended 31 December 2017 exceeds RMB22,000,000 (after adjustment of management expenses of RMB1,368,000), accordingly Mobilefun Limited is entitled to 24,445,556 Consideration Shares pursuant to the Sale and Purchase Agreement. 24,445,556 Consideration Shares will be issued in April 2018.

KEY RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

The Group has always paid great attention to and maintained a good working relationship with its upstream raw material suppliers, and has been providing quality professional and systemic customer services for its downstream customers. The aforementioned suppliers and customers are good working partners creating value for the Group. Details of key relationships with stakeholders, including employees, customers and suppliers, etc. are set out in Environmental, Social and Governance Report of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the aggregate revenue from sales of goods attributable to the five largest customers and the largest customer of the Group accounted for approximately 16.1% and 4.0% of the Group's aggregate revenue from sales of goods, while the aggregate purchases attributable to five largest suppliers and the largest supplier of the Group accounted for approximately 42.8% and 16.3% of the Group's aggregate purchases.

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

SHARE AWARD SCHEME

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

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

During the year ended 31 December 2017, no new shares had been subscribed by the Trustee and a total of 4,116,000 shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme and 11,060,000 shares had been granted to Selected Employee(s) and 5,680,000 had been vested under the Share Award Scheme. Accordingly, since the Adoption Date and up to 31 December 2017, there were 7,737,000 shares held in trust under the Share Award Scheme.

Movement of the Share Award Scheme are set out in note 28 to the financial statements.

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

SHARE OPTION SCHEME

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

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

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

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

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

As at the date of this report, a total of 81,111,595 shares of the Company (representing approximately 9.76% of the existing issued share of the Company) may be issued upon exercise of all options which may be granted under the Share Option Scheme.

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

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

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

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

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

DIRECTORS

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

Executive Directors

Mr. HU Changyuan *(Chairman)*
Mr. HU Minglie *(Chief Executive Officer)*
Mr. CHEN Jianhua
Mr. REN Hao
Mr. ZHU Wenjun

Non-Executive Director

Mr. DAI Jianchun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong

Pursuant to Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. CHAI Chaoming, Mr. DAI Jianchun and Dr. LOU Dong shall retire from their office by rotation at the forthcoming annual general meeting and, being eligible, offered themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company, and the Stock Exchange pursuant to the Model Code were as follows:

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

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding *(Note 1)*
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 *(Note 2)*	–	31.91%
	Beneficial owner/personal Interest	300,000	200,000 *(Note 4)*	0.06%
HU Minglie	Beneficial owner/personal Interest	2,345,000	1,000,000 *(Note 4)*	0.40%
REN Hao	Interest of a controlled corporation/ corporate interest	19,996,667 *(Note 3)*	57,781,111 *(Note 3)*	9.36%
	Beneficial owner/personal Interest	300,000	200,000 *(Note 4)*	0.06%
CHEN Jianhua	Beneficial owner/personal Interest	1,780,000	200,000 *(Note 4)*	0.24%
CHAI Chaoming	Beneficial owner/personal Interest	234,000	100,000 *(Note 4)*	0.04%
LU Hong	Beneficial owner/personal Interest	300,000	100,000 *(Note 4)*	0.05%
ZHU Wenjun	Beneficial owner/personal interest	300,000	200,000 *(Note 4)*	0.06%
DAI Jianchun	Beneficial owner/personal interest	100,000	100,000 *(Note 4)*	0.024%
LOU Dong	Beneficial owner/personal interest	100,000	100,000 *(Note 4)*	0.024%

Notes:

1. The percentages are calculated based on the total issued shares of 831,112,617 as at 31 December 2017.

2. These 265,200,000 shares were held by Luckie Strike Limited and Come Fortune International Limited which was wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust which was founded by Mr. HU Changyuan. Mr. HU was deemed to be interested in these shares by virtue of the SFO.

3. These 19,996,667 shares and 57,781,111 underlying shares are held by Mobilefun Limited ("**Mobilefun**") which in turn is 42% controlled by Mr. Ren Hao. Accordingly, Mr. Ren Hao is deemed to have interest in 19,996,667 shares and 57,781,111 underlying shares of the Company held by Mobilefun under the SFO. Details of these underlying shares held by Mobilefun are set out in the section hereinafter headed "Substantial Shareholders" in this report.

4. These underlying shares held by Directors are award shares granted to the Directors under the Share Award Scheme on 13 December 2017. The first tranch was vested on 13 December 2017, and the rest will be vested on 13 December 2018 and 13 December 2019 respectively. Details of the said grant are set out in the announcement of the Company on 13 December 2017 and the movement of award shares is set out in note 28 to the financial statements.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, the following persons or corporations (other than the directors' interests disclosed in the section headed "**Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debenture**") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	**Capacity/Nature of Interest**	**Number of Shares**	**Number of Underlying Shares**	**Approximate percentage of shareholding** *(Note 1)*
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	13.24%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	18.67%
Dynamic Empire Holdings Limited *(Note 2)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra Trust Company (Singapore) Limited *(Note 2)*	Trustee (other than a bare trustee)/Other Interest	265,200,000 (L)	–	31.91%
Zedra Malta Limited *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra Holding SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
Zedra SA *(Note 3)*	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	31.91%
YU Yuesu *(Note 4)*	Interest of spouse/Family interest	265,200,000 (L)	–	31.91%
Mobilefun Limited *(Note 5)*	Beneficial owner/Beneficial interest	19,996,667 (L)	57,781,111 (L)	9.36%

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

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

Notes:

1. The percentages are calculated based on the total issued shares of 831,112,671 as at 31 December 2017.

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

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

4. Ms. YU Yuesu is deemed to be interested in these shares under the SFO by virtue of being the spouse of Mr. HU Changyuan. Ms. YU Yuesu is also deemed to be interested in 500,000 awarded shares granted to Mr. HU Changyuan on 13 December 2017 of which 300,000 shares had been vested on the same date. Such interests in awarded shares had been disclosed in the notification of disclosure of interests of Mr. HU Changyuan.

5. Pursuant to the sale and purchase agreement dated 21 June 2016 entered into between a subsidiary of the Company, Mobilefun Limited ("**Mobilefun**"), Mr. Ren Hao, an executive Director, and others in relation to the acquisition of entire share capital in Funnytime Limited (the "**Acquisition**") involving the issue of 77,777,778 consideration shares. The Acquisition had been completed on 5 August 2016 and the 77,777,778 potential shares which will be issuable to Mobilefun in accordance with the schedule set out in the announcement of the Company dated 21 June 2016. Details of the Acquisition and the said consideration shares are set out in the announcements of the Company dated 21 June 2016 and 5 August 2016. On 18 April 2017, 19,996,677 consideration shares were duly allotted and issued to Mobilefun. The remaining 57,781,111 potential shares will be issuable to Mobilefun pursuant to the schedule on the condition that the guaranteed target performance of Funnytime Limited are met. These shares and underlying shares held by Mobilefun were also disclosed as the interest of Mr. REN Hao in the section headed "Directors and chief executive's interests in shares, underlying shares and debentures" above.

Save as disclosed herein, as at 31 December 2017, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company, who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

EQUITY-LINKED AGREEMENTS

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

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Continuing Connected Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 4,116,000 shares of the Company at a total consideration of HK$3,288,000 (equivalent to RMB2,868,000) during the year.

STRUCTURED CONTRACTS

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

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

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

As a result of the Structured Contracts, the financial results of Funnytime Limited, Soul Dargon Limited, Hefei Yueyou and the PRC Operating Entities (collectively the "**Funnytime Group**") were consolidated by the Company for the period from the acquisition date to 31 December 2016. The revenue, net profit and total assets contributed by the Funnytime Group to the Group amounted to RMB16.6 million, RMB6.2 million and RMB26.5 million for the period from the acquisition date to 31 December 2016. For the year ended 31 December 2017, the revenue, net profit and total assets contributed by the Funnytime Group to the Group amounted to RMB41.9 million, RMB21.5 million and RMB60.7 million.

Reasons for using the Structured Contracts

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

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

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

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

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

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

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

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

For the year ended 31 December 2017, there was no material change in the Structured Contracts. As of the date of this annual report, there is no unwinding of any of the Structured Contracts.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

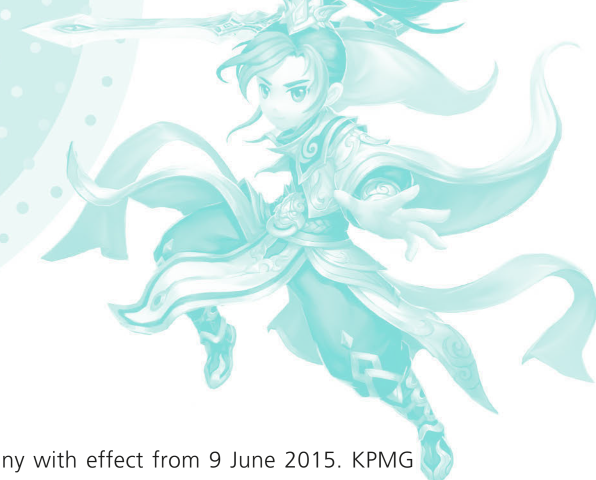
The Company has complied with the code provisions set out in the Corporate Governance Code in Appendix 14 of the Listing Rules during the year ended 31 December 2017. Details of the corporate governance practices of the Company are set out in the Corporate Governance Report in this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company comprises two independent non-executive Directors, namely, Mr. CHAI Chaoming and Ms. LU Hong and one non-executive Director, namely, Mr. DAI Jianchun. The Audit Committee has reviewed the audited financial statements for the year ended 31 December 2017 and has also discussed audit, risk management, internal control, continuing connected transactions and financial reporting matters including accounting practices and principles adopted by the Group.



AUDITOR

SHINEWING (HK) CPA Limited ("**SHINEWING**") resigned as auditor of the Company with effect from 9 June 2015. KPMG was appointed by the Board as new auditor of the Company on 10 June 2015 and acted as auditor of the Company for the years ended 31 December 2015, 2016 and 2017.

The consolidated financial statements for the year ended 31 December 2017 have been audited by KPMG. A resolution for the re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting.

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

Hong Kong, 28 March 2018

BIOGRAPHICAL DETAILS OF THE DIRECTORS

EXECUTIVE DIRECTORS

Mr. HU Changyuan, aged 69, is an executive Director and Chairman of the Board of the Company. Mr. HU was recognized as a senior economist by the Municipal Personnel Bureau of Zhejiang Province (浙江省人事廳) in 1995. He is the founder of the Group. Mr. HU has more than 28 years of experience in the copper plates and strips industry. He was a committee member of the first council of the China Nonferrous Metals Industry Association (中國有色金屬工業協會) (the "**CNMFIA**"), a member of the People's Political and Consultation Commission of Cixi City (慈溪市政協) and was a representative to the People's Congress of Ningbo City (寧波市人大). Mr. HU was awarded the title of "Labor Model of Ningbo City" (寧波市勞動模範) by Ningbo People's Government (寧波市人民政府) in 1991. In 2005, Mr. HU served as a vice president of the Zhejiang Charity Federation (浙江省慈善總會). In 2005, Mr. HU was awarded Zhejiang Charitable Individual (浙江慈善個人獎) by the People's Government of Zhejiang. He was also awarded the title of outstanding Chinese Entrepreneur (中國優秀企業家) by the Chinese International Hua Shang Association (中國國際華商會) and International Hua Shang Magazine (國際《華商》雜誌社) in 2006. In 2007, he was awarded "Outstanding Contributions to Chinese Charities" (中華慈善事業突出貢獻獎) and the title of "China's Charity Figure" (中華慈善人物) by China Charity Federation (中華慈善總會). Mr. HU is the father of Mr. HU Minglie and a director of Luckie Strike Limited and Come Fortune International Limited, substantial shareholders within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. HU Minglie, aged 36, is an executive Director of the Company and Chief Executive Officer of the Group. He graduated from the University of Arizona with a master degree in Optical Science Engineering, and has received a MBA degree from Anderson Management School of UCLA. Mr. HU is the founding partner and chairman of Lighthouse Capital Management LLC (the "**Lighthouse Capital**"), an equity investment fund management company established in Mainland China. At the time when he established Lighthouse Capital, he had been the partner of Tianjin Raystone Taihe Fund Management LLP, another equity investment fund management company established in Mainland China, for more than four years. During his service in Lighthouse Capital, he was responsible for the structuring and management of two funds with assets under management of over RMB300 million. The funds invested in more than 20 growth oriented projects in China and overseas, which were mainly medical, equipment and mobile internet projects. Mr. HU has also actively participated in the charity activities in Mainland China and Hong Kong, and is the director of Cixi Xingye Xi Yang Hong Charitable Foundation and Si Ming Care for Aged and Children Charitable Foundation Limited. Mr. HU is the son of Mr. HU Changyuan.

Mr. CHEN Jianhua, aged 50, is an executive Director of the Company. He graduated from an executive management program in business administration organized by Shanghai Fudan University and Hong Kong University Continuing Education Institute (上海港大－復旦專業繼續教育學院) in 2004 and has been working for the Group since 1998. Mr. CHEN is responsible for supervisory work for the Group. Mr. CHEN has more than 26 years of experience in the copper plates and strips industry. He was awarded the title of "Outstanding Entrepreneur of Cixi City" (慈溪市突出貢獻企業家) by the People's Government of Cixi in 2005 and 2006. In 2005, he was awarded the title of "Outstanding Entrepreneur" (優秀企業家) by the CNMFIA. In 2007, he was awarded the title of "Advanced Production Worker" by Cixi City, and was also awarded Outstanding Figure in the Industrial and Economic Year of Cixi City. In December 2009, he was recognized as a senior economist by Ningbo Municipal Personnel Bureau.

Mr. REN Hao, aged 35, is an executive Director of the Company since 18 October 2016. He is the head of the Company's gaming business. He was a director of Funnytime Limited which was acquired by the Group in August 2016. Before joining the Group, Mr. REN established a gaming company Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") in November 2014, which was controlled by Funnytime Limited through contractual agreements, and he acted as the chief executive officer of Hefei Zhangyue. Between 2010 to 2014, he served as the general manager of the web game division of Shenzhen ZQ Game Co., Ltd. (深圳中青寶互動網絡股份有限公司), a gaming company listed on the Shenzhen Stock Exchange. During 2007 to 2010, Mr. REN set up his own web game companies and was involved in both game development and operation. Before that, Mr. REN worked as an editor at the Yunnan TV Station. Mr. REN holds a bachelor degree of Business Management from Yunnan University. He is a director of Mobilefun Limited, a substantial shareholder within the meaning of Part XV of the Securities and Futures Ordinance.

BIOGRAPHICAL DETAILS OF THE DIRECTORS

Mr. ZHU Wenjun, aged 36, is an executive Director of the Company since 18 October 2016 and the Chief Financial Officer of the Company since April 2015. Prior to joining the Group, he worked with Shanghai Guohe Capital, where he had led private equity investment deals in media, software, internet and financial services sectors. Mr. ZHU has over 10 years of experience of finance, investment and corporate management. He started his career with KPMG assurance services, and also worked at Deloitte Financial Advisory with its Corporate Restructuring Services. Mr. ZHU holds an M.B.A. degree from UCLA Anderson School of Management, and bachelor's degree in law from Shanghai University of International Business and Economics.

NON-EXECUTIVE DIRECTOR

Mr. DAI Jianchun, aged 41, is a non-executive Director since August 2015 and a member of Audit Committee and Nomination Committee of the Company since January 2015. He had been an independent non-executive Director and the chairman of Remuneration Committee of the Company from January to August 2015. He was re-designated as a non-executive Director and resigned from the chairman of Remuneration Committee in August 2015. He graduated from the School of Economics and Management at Tsinghua University, with the degree of Bachelor of Engineering in Management Information Systems in July 2000, where he also obtained a Master's Degree in Quantitive Economics in July 2002. Between August 2002 and July 2006, Mr. DAI worked as a portfolio manager in the capital markets department in the headquarters of China CITIC Bank. Mr. DAI then became a manager in Crédit Agricole Corporate and Investment Bank's Hong Kong office until January 2009. Mr. DAI is currently a founding partner of Ferry Venture Capital, a company that performs venture capital for entrepreneurial enterprises with an industry focus on the mobile internet, innovation of products and services through mobile internet (O2O) commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAI Chaoming, aged 48. is an independent non-executive Director of the Company since May 2009. He is the chairman of Audit Committee and Nomination Committee of the Company. He graduated and obtained a Bachelor degree in economics from Shanghai University of Finance & Economics and a Master degree in business administration from Guanghua School of Management of Beijing University. Mr. CHAI is a partner of Raystone Capital Management, LLP, a fund which focuses on private equity investment in China. Mr. CHAI has extensive corporate management and investment experience. Mr. CHAI is an independent non-executive director of Tangshan Jidong Cement Company Limited (stock code: 000401.SZ), a company listed on the Shenzhen Stock Exchange Limited in China.

Dr. LOU Dong, aged 36, is an independent non-executive Director of the Company since August 2015. He is also the chairman of Remuneration Committee and a member of Nomination Committee of the Company. He graduated from Columbia University with a degree of Bachelors of Computer Science in 2004 and obtained a doctoral degree from Yale University in Financial Economics in 2009. Dr. LOU worked as an assistant professor in Finance at the London School of Economics and Political Science from 2009–2015, where he is currently an associate professor (tenured professor) in Finance. Dr. LOU is a researcher at the Centre for Economic Policy Research in the United Kingdom from 2013 to the present and an associate editor at Management Science and Journal of Empirical Finance from 2014 to the present.

Ms. LU Hong, aged 49, is an independent non-executive Director since May 2016. Ms. LU has over 20 years of experience in accounting, financial management, company secretarial and domestic and overseas capital markets field. She is a member of the Chinese Institute of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. LU has extensive knowledge and experience in accounting and is very familiar with listing rules and regulations both in Hong Kong and PRC. She has rich experience in the listing of corporations in the PRC, Hong Kong, Singapore and the United States of America, and foreign and domestic investment and financing operations as well as mergers and acquisitions. Ms. LU also specializes in financial analysis, budgeting, financial management and tax planning. Ms. LU has been an independent non-executive director of Sino Biopharmaceutical Limited (stock code: 1177), a company listed on the main board of The Stock Exchange of Hong Kong Limited.

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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
Huan Yue Interactive Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Huan Yue Interactive Holdings Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 86 to 166, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (Continued)

Revenue recognition

Refer to note 4(a) to the consolidated financial statements and the accounting policies on page 106.

The Key Audit Matter

Revenue from the sale of copper products is recognised when the goods are delivered to the customers' designated location for domestic sales or when the goods are loaded on shipping vessels for overseas sales, which is considered to be the point in time when the Group transfers the significant risks and rewards associated with ownership of goods to the customers.

The Group's sales contracts with customers have a variety of terms in relation to goods acceptance and the calculation of sales rebates. Management evaluates the terms of individual contracts in order to determine the appropriate timing of revenue recognition and the amounts which should be recognised.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- assessing the design, implementation and operating effectiveness of the relevant key internal controls which govern revenue recognition from the sale of copper products;

- inspecting key customer contracts and evaluating the Group's revenue recognition policies, including the timing of revenue recognition and the amount of revenue recognised, with reference to the requirements of the prevailing accounting standards;

- comparing revenue transactions recognised during the year, on a sample basis, with contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading and assessing whether revenue was recognised in accordance with the Group's revenue recognition policies;

- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with sales contracts and goods delivery notes with the customers' acknowledgement of receipt and acceptance of the goods or bills of lading to determine whether the revenue had been recognised in the appropriate financial period;

KEY AUDIT MATTERS (Continued)

Revenue recognition (Continued)

Refer to note 4(a) to the consolidated financial statements and the accounting policies on page 106.

The Key Audit Matter (Continued)	**How the matter was addressed in our audit** (Continued)
We identified revenue recognition from the sale of copper products as a key audit matter because revenue is a key performance indicator of the Group which could create an incentive for manipulation of revenue to meet targets or expectations.	• recalculating, on a sample basis, sales rebates recognised during the year with reference to the terms contained in customers' sales contracts and the actual sales volumes for customers qualifying for rebates, comparing our calculations with those of the Group and assessing whether the sales rebates had been accurately recognised in the appropriate financial period; • inspecting samples of credit invoices and returned goods delivery notes issued in December 2017 and January 2018 to evaluate whether associated adjustments to revenue had been accurately recorded in the appropriate accounting period; and • inspecting manual adjustments to revenue made during the reporting period applying risk-based sampling techniques, enquiring of management as to the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

KEY AUDIT MATTERS (Continued)

Assessment of impairment of goodwill

Refer to note 16 to the consolidated financial statements and the accounting policies on page 101.

The Key Audit Matter

For the purpose of impairment testing, goodwill in the consolidated statement of financial position which arose from the Group's acquisition of the online gaming business in 2016, is allocated to one cash-generating unit ("**CGU**").

There is a risk that the carrying value of the goodwill balance may not be recovered from future cash flows to be generated from the online gaming business.

An annual impairment assessment of goodwill is performed by management.

Management assesses impairment of goodwill as at 31 December 2017 by preparing a discounted cash flow forecast for the CGU to which goodwill has been allocated and comparing the net present value of the forecast cash flows with the carrying values of the related assets.

The preparation of a discounted cash flow forecast involves the exercise of significant management judgement, in particular in estimating future sales growth rates and the discount rate applied.

We identified assessing impairment of goodwill relating to the online gaming business as a key audit matter because assessing impairment involves forecasting future cash flows which is complex and inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess impairment of goodwill included the following:

- assessing management's identification of the CGU and the allocation of assets and liabilities to the identified CGU with reference to the requirements of the prevailing accounting standards;
- involving our internal valuation specialists to assist us in evaluating the methodology adopted by management in its impairment assessment with reference to the requirements of the prevailing accounting standards;
- comparing the most significant inputs in the discounted cash flow forecast, including future revenue, future margins and cost growth rates, with the latest financial budgets approved by management, historical performance, management's forecast, industry reports and business developments subsequent to the reporting date and involving our valuation specialists to assist us in assessing the discount rate applied in the discounted cash flow forecast by benchmarking against the discount rate of similar companies;
- obtaining sensitivity analyses to both the discount rate and future cash flows and considering the resulting impact of changes in the key assumptions to the conclusion reached in the impairment assessment and whether there were any indicators of management bias; and
- considering the disclosures in the consolidated financial statements in respect of assessing impairment of goodwill with reference to the requirements of the prevailing accounting standards.

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

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Steven Roy Parker.

KPMG
Certified Public Accountants

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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Revenue	4(a)	**4,495,001**	3,435,511
Cost of sales		**(3,970,567)**	(2,882,979)
Gross profit		**524,434**	552,532
Other income	5	**27,553**	29,292
Distribution expenses		**(52,128)**	(48,385)
Administrative expenses		**(205,349)**	(266,492)
Other expenses	6	**(80,345)**	(106,397)
Profit from operations		**214,165**	160,550
Finance income		**13,814**	4,346
Finance costs		**(50,032)**	(52,757)
Net finance costs	7(a)	**(36,218)**	(48,411)
Profit before taxation		**177,947**	112,139
Income tax	8	**(39,153)**	(22,330)
Profit for the year		**138,794**	89,809
Attributable to:			
Equity shareholders of the Company		**135,544**	84,805
Non-controlling interests		**3,250**	5,004
Profit for the year		**138,794**	89,809
Earnings per share	12		
Basic (RMB)		**0.16**	0.10
Diluted (RMB)		**0.16**	0.10

The notes on pages 94 to 166 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(d).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Profit for the year		**138,794**	89,809
Other comprehensive income for the year (after tax and reclassification adjustments)	11		
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas operations		**2,692**	(2,190)
Other comprehensive income for the year		**2,692**	(2,190)
Total comprehensive income for the year		**141,486**	87,619
Attributable to:			
Equity shareholders of the Company		**138,236**	82,615
Non-controlling interests		**3,250**	5,004
Total comprehensive income for the year		**141,486**	87,619

The notes on pages 94 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**978,621**	1,098,740
Lease prepayments	14	**13,351**	13,840
Intangible assets	15	**5,100**	8,760
Goodwill	16	**138,153**	138,153
Deposits for acquisition of property, plant and equipment		**4,823**	3,647
Loans and receivables	17	**3,037**	–
Deferred tax assets	8(d)	**34,286**	25,851
		1,177,371	1,288,991
Current assets			
Inventories	18	**654,182**	584,416
Trade and other receivables	19	**529,726**	461,103
Derivative financial instruments	20	**1,765**	4,304
Restricted bank deposits	21	**116,093**	49,570
Bank deposits with maturity over three months		**10,000**	–
Cash and cash equivalents	22	**166,319**	168,942
		1,478,085	1,268,335
Current liabilities			
Trade and other payables	23	**615,299**	829,592
Interest-bearing borrowings	24	**627,751**	622,271
Derivative financial instruments	20	**11,607**	4,949
Income tax payable		**48,319**	23,841
		1,302,976	1,480,653
Net current assets/(liabilities)		**175,109**	(212,318)
Total assets less current liabilities		**1,352,480**	1,076,673

The notes on pages 94 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current liabilities			
Interest-bearing borrowings	24	**231,000**	80,000
Contingent consideration payable	23(b)	**23,704**	46,093
Deferred income	25	**49,760**	49,449
Deferred tax liabilities	8(d)	**8,775**	15,241
		313,239	190,783
NET ASSETS		**1,039,241**	885,890
CAPITAL AND RESERVES			
Share capital	26(b)	**75,458**	73,687
Reserves		**936,714**	784,444
Total equity attributable to equity shareholders of the Company		**1,012,172**	858,131
Non-controlling interests		**27,069**	27,759
TOTAL EQUITY		**1,039,241**	885,890

Approved and authorised for issue by the board of directors on 28 March 2018.

Hu Minglie

Directors

Zhu Wenjun

The notes on pages 94 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Expressed in RMB)

	Note	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	PRC statutory reserve	Translation reserve	Treasury shares held for Share Award Scheme	Retained earnings	Total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016		73,687	295,251	259,726	80,797	(14,874)	–	84,185	778,772	24,303	803,075
Profit for the year		–	–	–	–	–	–	84,805	84,805	5,004	89,809
Other comprehensive income		–	–	–	–	(2,190)	–	–	(2,190)	–	(2,190)
Total comprehensive income		–	–	–	–	(2,190)	–	84,805	82,615	5,004	87,619
Profit appropriation to reserve		–	–	–	3,000	–	–	(3,000)	–	–	–
Treasury shares held for Share Award Scheme	*28(c)*	–	–	–	–	–	(3,256)	–	(3,256)	–	(3,256)
Liquidation of interest in subsidiaries		–	–	–	(22,866)	–	–	22,866	–	–	–
Disposal of interest in a subsidiary		–	–	–	–	–	–	–	–	(987)	(987)
Dividend paid to a non-controlling shareholder		–	–	–	–	–	–	–	–	(561)	(561)
At 31 December 2016		73,687	295,251	259,726	60,931	(17,064)	(3,256)	188,856	858,131	27,759	885,890

The notes on pages 94 to 166 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Expressed in RMB)

	Note	Attributable to equity shareholders of the Company										
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	PRC statutory reserve *RMB'000*	Translation reserve *RMB'000*	Treasury shares held for Share Award Scheme *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
At 31 December 2016 and 1 January 2017		73,687	295,251	259,726	60,931	(17,064)	(3,256)	–	188,856	858,131	27,759	885,890
Profit for the year		–	–	–	–	–	–	–	135,544	135,544	3,250	138,794
Other comprehensive income		–	–	–	–	2,692	–	–	–	2,692	–	2,692
Total comprehensive income		–	–	–	–	2,692	–	–	135,544	138,236	3,250	141,486
Profit appropriation to reserve		–	–	–	4,710	–	–	–	(4,710)	–	–	–
Dividend paid to a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	(3,940)	(3,940)
Share Award Scheme:												
– Treasury shares held for Share Award Scheme	28(c)	–	–	–	–	–	(2,868)	–	–	(2,868)	–	(2,868)
– Value of employee services		–	–	–	–	–	–	4,326	–	4,326	–	4,326
– Shares vested from Share Award Scheme and transferred to the grantees	28(c)	–	–	–	–	–	307	(247)	(60)	–	–	–
New shares issued in connection with contingent consideration	26(b)&(c)	1,771	12,576	–	–	–	–	–	–	14,347	–	14,347
At 31 December 2017		75,458	307,827	259,726	65,641	(14,372)	(5,817)	4,079	319,630	1,012,172	27,069	1,039,241

The notes on pages 94 to 166 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Profit for the year		138,794	89,809
Adjustment for:			
Depreciation of property, plant and equipment		88,703	73,981
Amortisation of lease prepayments		359	359
Amortisation of intangible assets		3,456	1,440
Impairment losses on property, plant and equipment		38,802	105,120
Impairment losses on trade and other receivables		462	–
Loss on disposal of property, plant and equipment		21,887	672
Loss on disposal of intangible assets		204	–
Gain on disposal of property, plant and equipment		(50)	(139)
Net finance costs		36,218	48,411
Equity-settled share-based payment transactions		4,326	–
Unrealised fair value change on derivative financial instruments		(450)	1,726
Gain on liquidation of interest in a joint venture		–	(1,467)
Loss on disposal of interest in a subsidiary		–	7
Income tax expense		39,153	22,330
Amortisation of deferred income		(5,663)	(3,138)
		366,201	339,111
Changes in working capital:			
Inventories		(69,766)	(159,700)
Trade and other receivables		(88,199)	(126,179)
Trade and other payables		(186,704)	213,350
Cash generated from operations		21,532	266,582
Interest paid		(41,925)	(42,081)
Income tax paid		(29,576)	(19,419)
Net cash (used in)/generated from operating activities		(49,969)	205,082

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Cash flows from investing activities			
Interest received		**2,007**	2,140
Loans to a third party		**(3,037)**	–
Proceeds from disposal of property, plant and equipment		**182**	398
Change in pledged deposits		**(58,818)**	–
Net proceeds from disposal of interest in a subsidiary		**–**	(1,424)
Acquisition of property, plant and equipment, net of deposits placed in previous years		**(46,005)**	(94,207)
Acquisition of available-for-sale investment		**–**	(5,000)
Proceeds from settlement of available-for-sale investment		**–**	14,225
Placement of deposits for acquisition of property, plant and equipment		**(3,799)**	(1,667)
Proceeds from disposal of interest in a joint venture		**–**	1,467
Acquisition of subsidiaries	23(b)	**(16,521)**	(82,508)
Government grants received		**3,188**	1,000
Net cash used in investing activities		**(122,803)**	(165,576)
Cash flows from financing activities			
Repayment of borrowings	22(a)	**(1,456,988)**	(1,005,782)
Proceeds from borrowings	22(a)	**1,639,838**	926,531
Payment for settlement of interest rate swap contracts	22(a)	**(51)**	–
Payment for purchase of shares in connection with Share Award Scheme	28(c)	**(2,868)**	(3,256)
Dividend paid to non-controlling shareholders		**(4,501)**	–
Net cash generated from/(used in) financing activities		**175,430**	(82,507)
Net increase/(decrease) in cash and cash equivalents		**2,658**	(43,001)
Cash and cash equivalents at 1 January		**168,942**	209,915
Effect of movements in exchange rates on cash held		**(5,281)**	2,028
Cash and cash equivalents at 31 December		**166,319**	168,942

The notes on pages 94 to 166 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Financial statements for the year ended 31 December 2017

(Prepared under International Financial Reporting Standards)

1 REPORTING ENTITY AND BACKGROUND INFORMATION

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

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "**Group**"). The principal activities of the Group are the manufacture and sale of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online games business in August 2016, the Group's activities also include developing, publishing and operating online games and provision of related services.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

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

- contingent consideration payable; and
- derivative financial instruments (see note 2(h)).

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

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

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

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 22(a) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities 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.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 33).

(d) Functional and presentation currency

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

(e) Subsidiaries and non-controlling interests

(i) Business combination

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(g) Other investments in debt and equity securities

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Other investments in debt and equity securities (Continued)

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

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

(h) Derivative financial instruments

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

(i) Property, plant and equipment

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Lease prepayments

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

(k) Intangible assets (other than goodwill)

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

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

Exclusive rights for operation of online games	2.5 years
Product technology	2 years
Non-compete agreement	7 years

Both the period and method of amortisation are reviewed annually.

(l) Leased assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

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

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

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

(n) Inventories

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits

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

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

(ii) Share-based payments

The shares awarded under the share award scheme are acquired from open market. The net consideration paid, including any directly attributable incremental costs, is presented as "Treasury shares held for Share Award Scheme" and deducted from equity.

For shares granted under the share award scheme, the fair value of shares granted to employees is recognised as an employee cost with a corresponding increase in share-based compensation reserve within equity. The fair value is based on the closing price of the Company's shares on grant date plus any directly attributable incremental costs. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total fair value of the shares is spread over the vesting period, taking into account the probability that the shares will vest.

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares that vest with a corresponding adjustment to the share-based compensation reserve.

When the awarded shares are transferred to the grantees upon vesting, the related weighted average acquisition cost of the awarded shares vested are credited to "Treasury shares held for Share Award Scheme", and the grant date fair value of the awarded shares vested are debited to the share-based compensation reserve. The difference between the related weighted average acquisition cost and the grant date fair value of the awarded shares vested is transferred to retained profits directly.

Share-based payment transactions in which the Company grants shares to its subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position which is eliminated on consolidation.

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

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

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

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

  – the same taxable entity; or

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

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Sales of goods

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition (Continued)

(ii) Publishing and operating online games

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

(iii) Services income

Service income is recognised when the related service is rendered.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Interest income

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

(vi) Government grants

Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Translation of foreign currencies

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

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

The results of foreign operations are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(x) Borrowing costs

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

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

(y) Dividends

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Related parties

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

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

(b) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(aa) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

- Note 2(v) – Revenue from publishing and operating online games: whether the Group acts as an agent in the transaction rather than as a principal.

- Note 28(b)&(c) – Consolidation: whether the Group has control over entities through contractual arrangements and trusts.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Impairment loss of trade and other receivables

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

(ii) Depreciation and amortisation

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

(iii) Net realisable value of inventories

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(b) Sources of estimation uncertainty (Continued)

(iv) Impairment of non-current assets

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

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

(v) Income tax

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

(vi) Fair value of contingent considerations

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2017	2016
	RMB'000	*RMB'000*
Copper products related:		
– Sales of high precision copper plates and strips	**4,004,431**	3,202,160
– Processing service fees	**203,616**	160,906
– Trading of raw materials	**245,089**	55,849
	4,453,136	3,418,915
Online games related:		
– Technical service income	**12,572**	9,580
– Publishing and operating online games	**28,015**	6,698
– Others	**1,278**	318
	41,865	16,596
	4,495,001	3,435,511

The Group's customer base for copper products is diversified and no single customer contributed over 10% of the total revenue of the Group during the year ended 31 December 2017. During the year ended 31 December 2016, there was one customer with which the total transactions amount exceeded 10% of the Group's revenues, and revenues from sales of high precision copper plates and strips to this customer amounted to RMB475,280,000. Details of concentrations of credit risk arising from this customer are set out in note 29(a). Further details regarding the Group's principal activities are disclosed below:

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

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

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

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

(i) Segment results, assets and liabilities

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

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. The measure used for reporting segment profit is profit before taxation. In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue, interest income and expenses related to cash balances and borrowings managed directly by segments, depreciation and amortisation and impairment losses. Changes in fair value of contingent consideration payables is not included in the measure of the segments' profit that is used by the most senior executive management for assessment of segment performance.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Copper products		Online games		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue from external customers	**4,453,136**	3,418,915	**41,865**	16,596	**4,495,001**	3,435,511
Inter-segment revenue	**520**	–	**–**	–	**520**	–
Reportable segment revenue	**4,453,656**	3,418,915	**41,865**	16,596	**4,495,521**	3,435,511
Reportable segment profit (profit before taxation)	**152,531**	105,816	**22,527**	6,323	**175,058**	112,139
Interest income from bank deposits	**1,635**	2,356	**52**	9	**1,687**	2,365
Net interest expense	**(40,334)**	(33,605)	**–**	–	**(40,334)**	(33,605)
Depreciation and amortisation	**(88,988)**	(74,314)	**(3,530)**	(1,466)	**(92,518)**	(75,780)
Impairment of plant and machinery	**(38,802)**	(105,120)	**–**	–	**(38,802)**	(105,120)
Reportable segment assets	**2,451,499**	2,381,621	**204,137**	175,765	**2,655,636**	2,557,386
Additions to non-current segment assets during the year	**29,246**	122,808	**28**	148,539	**29,274**	271,347
Reportable segment liabilities	**1,554,249**	1,583,707	**20,492**	9,106	**1,574,741**	1,592,813

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenue and profit before taxation

	2017 *RMB'000*	2016 *RMB'000*
Revenue		
Reportable segment revenues	**4,495,521**	3,435,511
Elimination of inter-segment revenue	**(520)**	–
Consolidated revenue	**4,495,001**	3,435,511

	2017 *RMB'000*	2016 *RMB'000*
Profit before taxation		
Reportable segment profit	**175,058**	112,139
Change in fair value of contingent consideration payables	**2,889**	–
Consolidated profit before taxation	**177,947**	112,139

(iii) Reconciliations of reportable segment assets and liabilities

	2017 *RMB'000*	2016 *RMB'000*
Assets		
Reportable segment assets	**2,655,636**	2,557,386
Elimination of inter-segment receivables	**(180)**	(60)
Consolidated total assets	**2,655,456**	2,557,326

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Reconciliations of reportable segment assets and liabilities (Continued)

	2017	2016
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,574,741**	1,592,813
Elimination of inter-segment payables	**(180)**	(60)
Unallocated corporate liabilities	**41,654**	78,683
Consolidated total liabilities	**1,616,215**	1,671,436

(iv) Geographic information

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
PRC	**3,788,254**	3,049,316
Others	**706,747**	386,195
	4,495,001	3,435,511

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

5 OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Government grants	**24,904**	18,912
Gain on liquidation of interest in a joint venture	**–**	1,467
Gains on derivate financial instruments	**–**	6,152
Gain on disposal of property, plant and equipment	**50**	139
Others	**2,599**	2,622
	27,553	29,292

Government grants represent unconditional government grants of RMB20,315,000 (2016: RMB15,916,000) awarded to the Group as a recognition of the Group's contribution to the development of the local economy, and the amortisation of deferred government grants of RMB4,589,000 during the year ended 31 December 2017 (2016: RMB2,996,000) (note 25).

6 OTHER EXPENSES

	2017	2016
	RMB'000	*RMB'000*
Impairment losses on property, plant and equipment *(note 13)*	**38,802**	105,120
Impairment losses on trade and other receivables	**462**	–
Loss on disposal of property, plant and equipment	**21,887**	672
Loss on derivate financial instruments	**17,167**	–
Loss on disposal of intangible assets	**204**	–
Loss on disposal of interest in a subsidiary	**–**	7
Others	**1,823**	598
	80,345	106,397

7 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2017 RMB'000	2016 RMB'000
Interest income on bank deposits	**1,687**	2,365
Change in fair value of contingent consideration payables *(note 23(b))*	**2,889**	19
Net foreign exchange gain	**9,238**	–
Unrealised gains from foreign exchange forward contracts and interest rate swap contracts	**–**	1,962
Finance income	**13,814**	4,346
Interest expenses	**(42,335)**	(43,117)
Less: interest expenses capitalised*	**2,001**	9,512
Net interest expense recognised in profit or loss	**(40,334)**	(33,605)
Net foreign exchange loss	**–**	(19,152)
Losses from foreign exchange forward contracts	**(9,698)**	–
Finance costs	**(50,032)**	(52,757)
Net finance costs	**(36,218)**	(48,411)

* The borrowing costs were capitalised at rates of 1.28% ~ 5.73% per annum in 2017 (2016: 1.02% ~ 6.72% per annum).

(b) Personnel costs

	2017 RMB'000	2016 RMB'000
Salaries, wages and other benefits	**127,222**	120,359
Contributions to defined contribution plan	**6,174**	6,021
	133,396	126,380

7 PROFIT BEFORE TAXATION (Continued)

(b) Personnel costs (Continued)

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

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

(c) Other items

	2017 *RMB'000*	2016 *RMB'000*
Cost of inventories*	**3,963,051**	2,878,577
Depreciation *(note 13)*	**88,703**	73,981
Amortisation		
– Lease prepayments *(note 14)*	**359**	359
– Intangible assets *(note 15)*	**3,456**	1,440
Impairment loss on property, plant and equipment	**38,802**	105,120
Research and development expenditure (included in administrative expenses)	**112,218**	164,947
Operating lease charges	**1,125**	648
Auditor's remuneration-audit services	**2,250**	2,890

* Cost of inventories includes RMB110,261,000 (2016: RMB91,588,000) relating to staff costs and depreciation expenses whose amounts are also included in the respective total amounts disclosed separately above or in note 7 (b) for each type of expense.

8 INCOME TAXES

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

	2017	2016
	RMB'000	*RMB'000*
Current tax		
Provision for the year	**52,758**	41,854
Over-provision in respect of prior year	**(367)**	(812)
	52,391	41,042
Deferred tax		
Origination and reversal of temporary differences	**(7,401)**	(33,712)
PRC withholding tax	**(5,837)**	15,000
	39,153	22,330

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

(ii) The applicable profits tax rate of the Group's subsidiaries incorporated in Hong Kong was 16.5% (2016: 16.5%).

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

For the year ended 31 December 2017, the standard income tax rate for all companies established in the PRC was 25%, except for Hefei Yueyou Network Technology Co., Ltd. ("**Yueyou**"). Yueyou has been certified as a "Software Enterprise" and is entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in income tax rate for the third to fifth years, starting from the first year in which revenue is generated. In accordance with the local tax authority's notice, the applicable income tax rates for Hefei Yueyou are 0% in 2017 and 2018, and 12.5% from 2019 to 2021.

8 INCOME TAXES (Continued)

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

(iv) The PRC Corporate Income Tax Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or arrangement, for dividend distributions out of the PRC from earnings accumulated from 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. As at 31 December 2017, a preferential withholding tax rate of 5% is applied, since Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**"), the parent company of the Group's PRC subsidiaries, became entitled to the preferential withholding tax rate of 5%, having been certified as the tax resident of the Hong Kong Special Administrative Region under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income". As a result, deferred tax liabilities of RMB7,500,000 (2016: RMB15,000,000) were recognised in connection with withholding tax that would be payable on the distribution of retained profits of the Group's PRC subsidiaries as at 31 December 2017, and an income tax credit of RMB5,837,000 as a result of the withholding income tax rate being reduced from 10% to 5%.

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

	2017 ***RMB'000***	2016 *RMB'000*
Profit before taxation	**177,947**	112,139
Notional tax on profit before taxation, calculated at the applicable rates in the tax jurisdictions concerned	**46,465**	30,612
Tax effect of unused tax losses not recognised as deferred tax assets	**1,573**	231
Tax effect of utilisation of tax losses not recognised in prior years	**(1,400)**	(3,940)
Withholding tax on profits retained by PRC subsidiaries	**(5,837)**	15,000
Withholding tax on liquidation of interest in a PRC subsidiary	**–**	714
Effect of tax concessions	**(3,848)**	(19,831)
Over-provision in prior year	**(367)**	(812)
Tax effect of non-deductible expenses	**703**	356
Tax effect of change in tax rate	**1,864**	–
Actual tax expense	**39,153**	22,330

8 INCOME TAXES (Continued)

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

	Accelerated depreciation and impairment of property, plant and equipment	Inventory provision	Change in fair value of derivative financial instruments	Deferred income	Withholding tax on dividends	Intangible assets	Unrealised profits arising from intra-group transactions and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	(8,866)	1,050	253	2,011	(1,500)	–	–	(7,052)
Reclassified to tax payable upon distribution of dividends	–	–	–	–	1,500	–	–	1,500
Credited/(charged) to profit or loss	31,935	(411)	(92)	74	(15,000)	360	1,846	18,712
Acquisition through business combination	–	–	–	–	–	(2,550)	–	(2,550)
At 31 December 2016 and 1 January 2017	23,069	639	161	2,085	(15,000)	(2,190)	1,846	10,610
Reclassified to current tax payable upon distribution of dividends	–	–	–	–	1,663	–	–	1,663
Credited/(charged) to profit or loss	(732)	655	2,300	490	5,837	915	3,773	13,238
At 31 December 2017	22,337	1,294	2,461	2,575	(7,500)	(1,275)	5,619	25,511

8 INCOME TAXES (Continued)

(d) Reconciliation to consolidated statement of financial position

	2017	2016
	RMB'000	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**34,286**	25,851
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(8,775)**	(15,241)
	25,511	10,610

(e) Unrecognised deferred tax assets and liabilities

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

	2017	2016
	RMB'000	*RMB'000*
Tax losses of subsidiaries *(i)*	**27,319**	***36,833***
Retained earnings of PRC subsidiaries not expected to be distributed outside of the PRC in the foreseeable future *(ii)*	**(202,561)**	***(108,834)***

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

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

9 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2017					
Name of Directors	Director' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Retirement scheme contributions *RMB'000*	Discretionary bonus *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Executive directors						
Mr. Hu Changyuan	–	516	–	184	222	922
Mr. Chen Jianhua	–	386	5	320	222	933
Mr. Hu Minglie	–	1,144	5	574	748	2,471
Mr. Zhu Wenjun	–	1,003	5	–	222	1,230
Mr. Ren Hao	–	310	5	225	222	762
Non-executive directors						
Mr. Dai Jianchun	416	–	–	–	75	491
Independent non-executive directors						
Mr. Chai Chaoming	102	–	–	–	75	177
Mr. Lou Dong	102	–	–	–	75	177
Ms. Lu Hong	102	–	–	–	75	177
	722	3,359	20	1,303	1,936	7,340

9 DIRECTORS' REMUNERATION (Continued)

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

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

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year, all (2016: 5) are Directors whose emoluments are disclosed in note 9.

11 OTHER COMPREHENSIVE INCOME

Tax effect relating to each component of other comprehensive income

	2017			2016		
	Before-tax	**Tax (expense)/ benefit amount**	**Net-of-tax amount**	Before-tax	Tax (expense)/ benefit amount	Net-of-tax amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Exchange difference on translation of financial statements of overseas subsidiaries	**2,692**	**–**	**2,692**	(2,190)	–	(2,190)
Other comprehensive income	**2,692**	**–**	**2,692**	(2,190)	–	(2,190)

12 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB135,544,000 (2016: RMB84,805,000) and the weighted average number of 825,455,631 ordinary shares (2016: 809,806,092) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2017	2016
Ordinary shares in issue at 1 January	**807,094,950**	811,115,950
Effect of shares purchased/vested under share award scheme *(note 28(c))*	**(1,635,986)**	(1,309,858)
Effect of new shares issued *(note 26(b))*	**14,079,845**	–
Effect of ordinary shares issuable in connection with the contingent consideration payable relating to an acquisition in 2016	**5,916,822**	–
Weighted average number of ordinary shares in issue at 31 December	**825,455,631**	809,806,092

12 BASIC AND DILUTED EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

The share awards granted by the Group have a dilutive effect on the earnings per share ("**EPS**"). Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share awards granted by the Group (collectively forming the denominator for computing the diluted EPS). No adjustment is made to earnings (numerator).

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB135,544,000 (2016: RMB84,805,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares amounting to 850,100,291 ordinary shares (2016: 817,914,330), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December (basic)	**825,455,631**	809,806,092
Effect of share award scheme *(note 28(c))*	**199,104**	–
Effect of contingently issuable ordinary shares	**24,445,556**	8,108,238
Weighted average number of ordinary shares at 31 December (diluted)	**850,100,291**	817,914,330

13 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings	Machinery	Electronic and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2016	241,245	912,600	14,615	9,535	466,867	1,644,862
Acquisitions through business combination	–	–	155	–	–	155
Additions	73	29,326	8,018	1,049	79,514	117,980
Transfer from construction in progress	3,695	482,970	–	–	(486,665)	–
Transfer to construction in progress	–	(17,913)	–	–	4,859	(13,054)
Disposals	–	(708)	(576)	(1,119)	–	(2,403)
At 31 December 2016	245,013	1,406,275	22,212	9,465	64,575	1,747,540
Additions	811	3,814	4,851	1,800	17,998	29,274
Transfer from construction in progress	1,737	13,322	–	–	(15,059)	–
Disposals	–	(51,614)	(3,903)	(1,030)	–	(56,547)
At 31 December 2017	247,561	1,371,797	23,160	10,235	67,514	1,720,267
Accumulated depreciation and impairment losses						
At 1 January 2016	(54,206)	(418,325)	(7,711)	(3,706)	–	(483,948)
Charge for the year	(8,322)	(62,798)	(1,744)	(1,117)	–	(73,981)
Impairment losses	–	(105,120)	–	–	–	(105,120)
Transfer to construction in progress	–	13,054	–	–	–	13,054
Disposals	–	124	498	573	–	1,195
At 31 December 2016	(62,528)	(573,065)	(8,957)	(4,250)	–	(648,800)
Charge for the year	(8,611)	(75,291)	(3,721)	(1,080)	–	(88,703)
Impairment losses	(2,639)	–	–	–	(36,163)	(38,802)
Disposals	–	33,642	438	579	–	34,659
At 31 December 2017	(73,778)	(614,714)	(12,240)	(4,751)	(36,163)	(741,646)
Net book value						
At 31 December 2017	173,783	757,083	10,920	5,484	31,351	978,621
At 31 December 2016	182,485	833,210	13,255	5,215	64,575	1,098,740

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

(ii) Certain property, plant and equipment with aggregate carrying amount of RMB611,444,000 (2016: RMB897,591,000) were pledged as security for bank loans at 31 December 2017 (see note 24(iii)).

(iii) As at 31 December 2017, the Group was in the process of applying for the title certificates for certain of its properties with an aggregate carrying value of RMB18,122,000 (2016: RMB22,415,000). The Directors of the Company are of the opinion that the Group is entitled to lawfully occupy and use the above mentioned properties.

Impairment losses

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

In October 2016, the Group terminated the operation of a subsidiary, Yingtan Xingye Electronic Metal Materials Co., Ltd. and certain land and buildings became idle. During the year ended 31 December 2016, the Group assessed the recoverable amount of the related machinery and equipment, land and buildings, and as a result, an impairment loss of RMB24,849,000 was recognised for the machinery and equipment and no impairment loss was recognised for the land and buildings. During the year ended 31 December 2017, the Group re-assessed the recoverable amount of the land and buildings and as a result, the carrying amount of the land and buildings was written down to their estimated recoverable amount of RMB21,200,000. An additional impairment loss of RMB2,639,000 was recognised in "Other expenses" in 2017. The estimates of recoverable amount were based on fair value less costs of disposal, using the cost approach for the buildings and structure parts and market approach for land use rights. The fair value estimates on which the recoverable amount is based is categorised as a Level 3 measurement.

During the year ended 31 December 2017, the Group identified indicators of potential impairment of the hot dip tinning production line which was not yet ready for use, with a carrying amount of RMB40,356,000, because certain technical specifications of the production line were not satisfactory enough to produce the intended specialised output. The Group assessed the recoverable amount of the related machinery and equipment and as a result the carrying amount of the machinery and equipment was written down to their estimated recoverable amount of RMB4,193,000. An impairment loss of RMB36,163,000 was recognised in "Other expenses" in 2017. The estimates of recoverable amount were based on fair value less costs of disposal, using a cost approach. The fair value estimates on which the recoverable amount is based is categorised as a Level 3 measurement.

14 LEASE PREPAYMENTS

	RMB'000
Cost	
At 1 January 2016, 31 December 2016 and 1 January 2017	17,547
Disposals	(164)
At 31 December 2017	17,383
Accumulated amortisation	
At 1 January 2016	(3,348)
Charge for the year	(359)
At 31 December 2016	(3,707)
Charge for the year	(359)
Disposals	34
At 31 December 2017	(4,032)
Net book value	
As at 31 December 2017	13,351
As at 31 December 2016	13,840

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

(ii) Certain land use rights with an aggregate carrying amount of RMB13,351,000 were pledged as security for bank loans at 31 December 2017 (2016: RMB13,840,000) (see note 24(iii)).

15 INTANGIBLE ASSETS

	Exclusive rights for operation of online games *RMB'000*	Product technology *RMB'000*	Non-compete agreement *RMB'000*	Total *RMB'000*
Cost				
At 1 January 2016	–	–	–	–
Acquisitions through business combination	6,800	700	2,700	10,200
At 31 December 2016 and 1 January 2017	6,800	700	2,700	10,200
Disposals	–	(700)	–	(700)
At 31 December 2017	6,800	–	2,700	9,500
Accumulated amortisation:				
At 1 January 2016	–	–	–	–
Charge for the year	(1,133)	(146)	(161)	(1,440)
At 31 December 2016 and 1 January 2017	(1,133)	(146)	(161)	(1,440)
Charge for the year	(2,720)	(350)	(386)	(3,456)
Disposals	–	496	–	496
At 31 December 2017	(3,853)	–	(547)	(4,400)
Net book value:				
At 31 December 2017	2,947	–	2,153	5,100
At 31 December 2016	5,667	554	2,539	8,760

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

16 GOODWILL

	RMB'000
Cost:	
At 1 January 2016	–
Acquisition through business combination	138,153
At 31 December 2016 and 31 December 2017	138,153
Accumulated impairment loss:	
At 1 January 2016 and 31 December 2016	–
Impairment loss	–
At 31 December 2017	–
Net book value:	
At 31 December 2017	138,153
At 31 December 2016	138,153

Impairment tests for cash-generating units containing goodwill

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

	2017	2016
	RMB'000	*RMB'000*
Online games	**138,153**	138,153

16 GOODWILL (Continued)

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the value-in-use calculation are as follows:

	2017	2016
	RMB'000	*RMB'000*
Pre-tax discount rate	**31.5%**	38.3%
Long-term revenue growth rate	**2.5%**	3%
Revenue growth rates over next five years	**5% – 29%**	20% – 42%

These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average revenue growth rate of 2.5% (2016: 3%). The growth rate used does not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a pre-tax discount rate of 31.5% (2016: 38.3%). The discount rate used reflects specific risks relating to the relevant business. The revenue growth rates are based on past performance and expectations of market developments.

The estimated recoverable amount of the cash-generating unit exceeded its carrying amount by approximately RMB4,270,000 as at 31 December 2017. Management has considered a reasonably possible change in the discount rate that could cause the recoverable amount of the cash-generating unit to be less than the carrying amount at the end of the reporting period. With other assumptions remaining unchanged, the pre-tax discount rate would need to increase to higher than 32.4% in respect of the impairment test of year 2017, for the estimated recoverable amount to be less than the carrying amount.

17 LOANS AND RECEIVABLES

As at 31 December 2017, loans and receivables of the Group mainly represents an unsecured loan lent to a third party which is expected to be repaid in 2019, and which earns fixed interest at a rate of 6% per annum. The carrying amount of the loan and receivable approximates its fair value.

18 INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**85,617**	110,656
Work in progress	**373,846**	381,816
Finished goods	**194,197**	91,425
Others	**522**	519
	654,182	584,416

Provisions of RMB6,269,000 (2016: RMB3,768,000) were made against those inventories with net realisable value lower than carrying value as at 31 December 2017. Except for the above, none of the inventories as at 31 December 2017 were carried at net realisable value (2016: Nil).

Certain inventories with aggregate carrying amount of RMB255,670,000 were pledged as security for bank loans at 31 December 2017 (2016: RMB255,670,000) (see note 24(iii)).

19 TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**469,711**	358,093
Less: allowance for doubtful debts (note 19(b))	**(462)**	–
	469,249	358,093
Deposits for metal future contracts	**12,044**	11,632
VAT recoverable	**27,440**	76,792
Prepayments	**19,495**	12,004
Others	**1,498**	2,582
	529,726	461,103

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

As at 31 December 2017, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, in the amount of RMB10,176,000 (2016: RMB11,140,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continued to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

19 TRADE AND OTHER RECEIVABLES (Continued)

As at 31 December 2017, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2017, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by the Group to banks or suppliers in respect of discounted bills and endorsed bills should the issuing banks fail to settle the bills on maturity date, amounted to RMB11,676,000 (2016: RMB12,803,000).

(a) Ageing analysis

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**444,176**	333,285
Over 3 months but less than 6 months	**24,981**	23,949
Over 6 months but less than 1 year	**7**	792
Over 1 year	**85**	67
	469,249	358,093

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

As at 31 December 2017, the Group's bills receivables with aggregate carrying value of approximately RMB161,815,114 (2016: RMB70,023,000) were pledged to banks for issuance of bank acceptance bills.

19 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 2(m)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**–**	–
Impairment loss recognised	**462**	–
At 31 December	**462**	–

At 31 December 2017, trade and bills receivables of RMB1,540,000 were individually determined to be impaired. The individually impaired receivables related to new customers for whom there is no history of repayment and was overdue over 30 days, management assessed that only a portion of the receivables is expected to be recovered.

(c) Trade and bills receivables that are not impaired

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**464,293**	350,465
Less than 3 months past due	**3,786**	6,769
Over 3 months past due	**92**	859
	3,878	7,628
	468,171	358,093

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS

	Note	**2017** **RMB'000**	2016 RMB'000
Derivative financial assets			
Metal future contracts	*(i)*	**1,765**	1,461
Foreign exchange forward contracts	*(ii)*	**–**	2,843
		1,765	4,304
Derivative financial liabilities			
Metal future contracts	*(i)*	**(4,752)**	(4,898)
Interest rate swap contracts		**–**	(51)
Foreign exchange forward contracts	*(ii)*	**(6,855)**	–
		(11,607)	(4,949)

(i) Metal future contracts

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

	2017	2016
Sales contracts		
Volume *(tonnes)*	**3,250**	2,545
Notional contract value *(RMB'000)*	**160,844**	101,962
Market value *(RMB'000)*	**(165,596)**	(105,469)
Fair value *(RMB'000)*	**(4,752)**	(3,507)
Purchase contracts		
Volume *(tonnes)*	**550**	700
Notional contract value *(RMB'000)*	**(24,367)**	(26,691)
Market value *(RMB'000)*	**26,132**	26,761
Fair value *(RMB'000)*	**1,765**	70
Total *(RMB'000)*	**(2,987)**	(3,437)
Contract maturity date	January, February, March and April 2018	February, March and April 2017

20 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(i) Metal future contracts (Continued)

The market value of metal future contracts is based on quoted market prices at the reporting date. As at 31 December 2017, unrealised change in fair value of the outstanding commodity future contracts was RMB2,987,000 (2016: RMB3,437,000), and net realised and unrealised loss, in aggregate of RMB17,167,000 (2016: net realised and unrealised gain, in aggregate of RMB6,152,000) were recognised in other expenses (2016: other income) for the year ended 31 December 2017.

(ii) Foreign exchange forward contracts

The Group purchased foreign exchange forward contracts to hedge its foreign currency exchange rate fluctuation. The market value of these contracts are based on quoted market prices at the reporting date. As at 31 December 2017, unrealised change in fair value of the outstanding foreign exchange forward contracts was RMB6,855,000 (2016: RMB2,843,000), and net realised and unrealised loss, in aggregate of RMB9,698,000 was recognised in finance costs for the year ended 31 December 2017 (2016: net realised and unrealised gain, in aggregate of RMB2,013,000).

21 RESTRICTED BANK DEPOSITS

Restricted bank deposits represented:

	2017	2016
	RMB'000	*RMB'000*
Guarantee deposits for issuance of commercial bills	**53,190**	49,570
Guarantee deposits for bank borrowings	**58,818**	–
Guarantee deposits for forward exchange contracts	**3,148**	–
Others	**937**	–
	116,093	49,570

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

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

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 *(Note 24)*	Interest rate swap contracts held to hedge borrowings – liabilities RMB'000 *(Note 20)*	Total RMB'000
At 1 January 2017	702,271	51	702,322
Changes from financing cash flows:			
Proceeds from new bank loans	1,639,838	–	1,639,838
Repayment of bank loans	(1,456,988)	–	(1,456,988)
Payment for settlement of interest rate swap contracts	–	(51)	(51)
Total changes from financing cash flows	182,850	(51)	182,799
Exchange adjustments	(6,370)	–	(6,370)
Other non-cash change:			
Derecognition of discounted bills	(20,000)	–	(20,000)
Total other non-cash change	(20,000)	–	(20,000)
At 31 December 2017	858,751	–	858,751

23 TRADE AND OTHER PAYABLES

		2017	2016
		RMB'000	*RMB'000*
Trade and bills payable	*(a)*	**500,492**	652,903
Advances received from customers		**24,424**	37,288
Staff benefits payable		**24,588**	23,225
Payables for purchase of property, plant and equipment		**34,484**	55,839
Cash consideration payable in connection with business combination	*(b)*	**–**	16,638
Contingent share consideration payable	*(b)*	**17,950**	15,952
Accrued expenses and others		**13,361**	27,747
		615,299	829,592

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

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**457,527**	473,412
Over 3 months but within 6 months	**23,160**	150,283
Over 6 months but within 1 year	**16,854**	27,037
Over 1 year	**2,951**	2,171
	500,492	652,903

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

(b) On 5 August 2016 ("**the Acquisition Date**"), the Group obtained control of Funnytime Limited ("**Funnytime**") and its subsidiaries (collectively, the "**Target Group**") by acquiring 100% of the shares and voting interest in Funnytime from the vendor Mobilefun Limited ("**Mobilefun**"), a company with 42% equity interest held by Mr. Ren Hao, who became one of the directors of the Group upon the completion of the Acquisition. The total consideration payable by the Group comprised fixed cash consideration of RMB83,649,000 and contingent consideration to be settled in the form of cash and newly issued ordinary shares of the Company depending on achievement of the Target Group's adjusted net profit for each performance year from 2016 to 2018.

At 31 December 2017, the fair value of contingent consideration payables to Mobilefun was RMB41,654,000 (2016: RMB78,683,000), of which RMB17,950,000 (2016: RMB32,590,000) was included in trade and other payables and RMB23,704,000 (2016:RMB46,093,000) was included in non-current contingent consideration payable, respectively in the Group's consolidated statement of financial position.

The decrease in the balance of contingent consideration payables during the year was attributable to the payment of cash consideration payable of HKD18,600,000 (equivalent to RMB16,521,000) to Mobilefun, issuance of 19,996,667 number of ordinary shares to Mobilefun at a fair value of HKD16,197,000 (equivalent to RMB14,347,000) (note 26 (b)(i)) and a decrease in fair value of the contingent consideration payables, which was recorded in finance income (note 7(a)).

24 INTEREST-BEARING BORROWINGS

At 31 December 2017, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	2017 *RMB'000*	2016 *RMB'000*
Current		
Short-term secured bank loans	469,893	172,700
Unsecured bank loans	112,413	200,803
Bank advances under discounted bills	45,445	20,000
Current portion of non-current secured bank loans	–	228,768
	627,751	622,271
Non-current		
Secured bank loans	231,000	80,000
	858,751	702,271

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

	2017 *RMB'000*	2016 *RMB'000*
Within 1 year	–	228,768
Over 1 year but less than 2 years	171,000	–
Over 2 years but less than 5 years	60,000	80,000
	231,000	80,000
	231,000	308,768

(ii) The Group's interest-bearing borrowings in the amount of RMB420,500,000 (2016: RMB80,000,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the year ended 31 December 2017, none of these covenants related to drawn down facilities were breached.

24 INTEREST-BEARING BORROWINGS (Continued)

(iii) The secured bank loans as at 31 December 2017 bore interest at rates ranging from 2.15% to 7.5% (2016: 1.28% to 6.72%) per annum and were pledged by the following assets:

	2017 RMB'000	2016 RMB'000
Carrying amounts of assets:		
Inventories	255,670	255,670
Property, plant and equipment	611,444	897,591
Lease prepayments	13,351	13,840
Guarantee deposits for bank borrowings	58,818	–
	939,283	1,167,101

(iv) Unsecured bank loans as at 31 December 2017 bore interest at rates ranging from 2.21% to 4.35% (2016: 1.28% to 4.57%) per annum.

25 DEFERRED INCOME

	2017 RMB'000	2016 RMB'000
Government grants	48,887	48,725
Others	873	724
	49,760	49,449

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

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

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

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(a) Movements in components of equity (Continued)

	Note	Share capital *RMB'000*	Share premium *RMB'000*	Translation reserve *RMB'000*	Contributed surplus *RMB'000*	Share-based compensation reserve *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2017		73,687	295,251	6,477	407,248	–	82,111	864,774
Changes in equity for 2017:								
New shares issued in connection with contingent consideration	*26(b)&(c)*	1,771	12,576	–	–	–	–	14,347
Loss for the year		–	–	–	–	–	(3,841)	(3,841)
Other comprehensive income		–	–	(29,349)	–	–	–	(29,349)
Share Award Scheme:								
– Value of employee services		–	–	–	–	4,326	–	4,326
– Vested shares transferred to the grantees	*28(c)*	–	–	–	–	(247)	(60)	(307)
Total comprehensive income		1,771	12,576	(29,349)	–	4,079	(3,901)	(14,824)
At 31 December 2017		75,458	307,827	(22,872)	407,248	4,079	78,210	849,950

(b) Share capital

Authorised

	2017		2016	
	Number of shares	**Amount** ***HKD'000***	Number of shares	Amount *HKD'000*
Ordinary shares of HKD0.1 each	**5,000,000,000**	**500,000**	5,000,000,000	500,000

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital (Continued)

Ordinary shares issued and fully paid

	2017			2016		
	Number of shares	**Amount**	**Equivalent**	Number of shares	Amount	Equivalent
	'000	***HKD'000***	***RMB'000***	*'000*	*HKD'000*	*RMB'000*
At 1 January	**811,116**	**81,111**	**73,687**	811,116	81,111	73,687
New shares issued in connection with contingent consideration for acquisition	**19,997**	**2,000**	**1,771**	–	–	–
At 31 December	**831,113**	**83,111**	**75,458**	811,116	81,111	73,687

(i) On 18 April 2017, 19,996,667 ordinary shares of HKD0.10 par value each were duly issued to Mobilefun Limited as pursuant to a sales and purchase agreement dated 21 June 2016, with fair value of HKD0.81 per share, as settlement of the contingent consideration payables for the performance year of 2016 (see note 23(b)). An amount of HKD2,000,000 (equivalent to RMB1,771,000) representing the par value of the shares, were credited to the Company's share capital. The excess amount of HKD16,197,000 (equivalent to RMB14,347,000) over the par value of ordinary shares issued were credited to share premium.

(c) Reserves

(i) Share premium

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

(ii) Contributed surplus

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

(iii) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB797,364,000 (2016: RMB784,610,000).

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(iv) Capital reserve

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

(v) PRC statutory reserves

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

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

(vi) Share-based compensation reserve

Share-based compensation reserve represents the value of employee services in respect of awarded shares under the Share Award Scheme as set out in note 28(c).

26 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Reserves (Continued)

(vii) Capital management

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

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

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

The gearing ratio as at 31 December is as follows:

	2017 ***RMB'000***	2016 *RMB'000*
Gearing ratio	**40.62%**	38.33%

(d) Dividends

No final dividend was declared to equity shareholders of the Company for the year ended 31 December 2017 (2016: Nil).

27 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	RMB'000	*RMB'000*
Non-current assets		
Investments in subsidiaries	**430,501**	413,327
Amounts due from subsidiaries	**77,610**	68,533
Interests in subsidiaries *(note 28)*	**508,111**	481,860
Current assets		
Amounts due from subsidiaries	**340,664**	366,602
Other receivables	**15**	8
Cash and cash equivalents	**1,552**	17,200
	342,231	383,810
Current liability		
Other payables	**392**	896
	392	896
Net current assets	**341,839**	382,914
Net assets	**849,950**	864,774
Capital and reserves		
Share capital *(note 26 (b))*	**75,458**	73,687
Reserves	**774,492**	791,087
Total equity	**849,950**	864,774

28 INVESTMENTS IN SUBSIDIARIES

(a) Subsidiaries

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

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
Xingye Copper International (BVI) Limited ("**Xingye Copper (BVI)**")	British Virgin Islands, July 2007	100%	–	USD1/USD1	Investment holding
Xingye Copper International (HK) Limited ("**Xingye Copper (HK)**")	Hong Kong SAR, July 2007	–	100%	HKD4,000,000/ HKD4,000,000	Investment holding and trading of high precision copper plates and strips
Ningbo Xingye Shengtai Group Ltd. (formerly known as Ningbo Xingye Shengtai Electronic Metal Materials Co., Ltd.) ("**Shengtai Group**") 寧波興業盛泰集團有限公司	The PRC, November 2001	–	97.8%	RMB700,000,000/ RMB700,000,000	Manufacture and sale of high precision copper plates and strips
Yingtan Xingye Electronic Metal Materials Co., Ltd. ("**Yingtan Xingye**") 鷹潭興業電子金屬材料有限公司	The PRC, November 2006	–	100%	RMB95,000,000/ RMB95,000,000	Manufacture and sale of high precision copper plates and strips
Ningbo Xinglie Trade Co., Ltd. ("**Xinglie**") 寧波興烈貿易有限公司	The PRC, May 2014	–	100%	RMB8,000,000/ RMB21,000,000	Purchase of raw materials
Ningbo Hangzhou Bay New Zone Qiangtai Metal Materials Co., Ltd. ("**Qiangtai**") 寧波杭州灣新區強泰金屬材料有限公司	The PRC, May 2010	–	100%	RMB4,395,250/ RMB4,395,250	Trading of high precision copper plates and strips
Sichuan Xingtong Metal Materials Co., Ltd. ("**Sichuan Xingtong**") 四川興銅金屬材料有限公司	The PRC, August 2010	–	51%	RMB5,000,000/ RMB5,000,000	Manufacturing and sale of high precision copper plates and strips
Ningbo Xingye Xintai New Metal Materials Co., Ltd. ("**Ningbo Xingtai**") 寧波興業鑫泰新型電子材料有限公司	The PRC, March 2011	–	100%	RMB200,000,000/ RMB200,000,000	Manufacture and sale of high precision copper plates and strips

28 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Subsidiaries (Continued)

Name of company	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company Direct	Indirect	Issued and fully paid-up/ registered capital	Principal activities
Xingye Investment Limited ("**Xingye Investment**")	Hong Kong SAR, October 2009	100%	–	HKD1/HKD1	Investment holding
Ningbo Xinghong Property Service Co., Ltd ("**Xinghong**") 寧波興宏物業服務有限公司	The PRC, November 2015	–	100%	RMB1,000,000/ RMB1,000,000	Property services
Xingye Investment Holdings (HK) Limited ("**Investment (HK)**")	Hong Kong SAR, August 2015	–	100%	HKD1/HKD1	Investment holding
Xingye Investment Holdings Limited ("**Investment**")	British Virgin Islands, June 2015	–	100%	USD1/USD1	Investment holding
Funnytime Limited ("**Funnytime**")	British Virgin Islands, October 2015	–	100%	USD0/USD1,000	Investment holding
Soul Dargon Limited	Hong Kong SAR, October 2015	–	100%	HKD0/HKD1	Investment holding
Hefei Yueyou Network Technology Co., Ltd. ("**Yueyou**") 合肥悅游網絡科技有限公司	The PRC, January 2016	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games
Hefei Zhangyue Network Technology Co., Ltd. ("**Hefei Zhangyue**") (note (b)) 合肥掌悅網絡科技有限公司	The PRC, July 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games
Shenzhen Zhangyue Network Technology Co., Ltd. *(note (b))* 深圳掌悅網絡科技有限公司	The PRC, August 2015	–	100%	RMB1,000,000/ RMB1,000,000	Developing, publishing and operating online games
Hefei Boyou Network Technology Co., Ltd. 合肥博游網絡科技有限公司	The PRC, May 2017	–	100%	RMB0/ RMB1,000,000	Developing, publishing and operating online games
Ningbo Xingqi Trade Co., Ltd. 寧波興齊貿易有限公司	The PRC, September 2017	–	100%	RMB100,000/ RMB100,000	Purchasing of raw materials and trading of high precision copper plates and strips

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

28 INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Entities controlled through contractual arrangements

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

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

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

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

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

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

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

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

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

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

28 INVESTMENTS IN SUBSIDIARIES (Continued)

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

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

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

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

As at 31 December 2017, the Company had contributed HKD7,000,000 (equivalent to RMB6,078,000) (2016: HKD7,000,000 (equivalent to RMB6,078,000)) to the Trust and the amount was recorded as "Investments in subsidiaries" in the Company's statement of financial position.

As at 31 December 2017, the Trustee had purchased 8,137,000 shares (2016: 4,021,000 shares) of the Company at a total cost (including related transaction costs) of HKD6,999,000 (equivalent to RMB6,124,000) (2016: HKD3,712,000 (equivalent to RMB3,256,000).

(i) Details of the shares held under the Share Award Scheme are set out below:

	2017			2016		
	Average purchase price *HKD*	**No. of shares held**	**Value** *RMB'000*	Average purchase price *HKD*	No. of shares held	Value *RMB'000*
At 1 January	**0.92**	**4,021,000**	**3,256**	–	–	–
Shares purchased during the year	**0.80**	**4,116,000**	**2,868**	0.92	4,021,000	3,256
Shares vested and transferred to an employee during the year	**–**	**(400,000)**	**(307)**	–	–	–
At 31 December	**0.86**	**7,737,000**	**5,817**	0.92	4,021,000	3,256

28 INVESTMENTS IN SUBSIDIARIES (Continued)

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

(i) Details of the shares held under the Share Award Scheme are set out below (Continued):

According to the Resolution of the Administration Committee of the Company on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group at nil consideration, with 40%, 30% and 30% of the shares to be vested on 15 June 2017, 15 June 2018 and 15 June 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) was determined with reference to the closing price of the Company's ordinary shares on 26 May 2017. 400,000 awarded shares were vested and transferred to the grantee during 2017.

According to the Resolution of the Administration Committee of the Company on 13 December 2017, 10,060,000 ordinary shares held under the Share Award Scheme were granted to 9 directors and 91 employees of the Group at nil consideration, with 5,280,000 shares, 2,152,000 shares and 2,628,000 shares to be vested on 13 December 2017, 13 December 2018 and 13 December 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.85 per share (equivalent to approximately RMB0.72 per share) was determined with reference to the closing price of the Company's ordinary shares on 13 December 2017. 5,280,000 awarded shares were vested on 13 December 2017, but had not been transferred to grantees as at 31 December 2017.

(ii) Movements in the number of awarded shares for the year ended 31 December 2017 and 2016 are as follows:

	Number of awarded shares
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Granted	11,060,000
Vested and transferred	(400,000)
At 31 December 2017	10,660,000
Vested but not transferred as at 31 December 2017	5,280,000

During the year ended 31 December 2017, 4,800,000 out of the 11,060,000 awarded shares with a fair value of RMB3,463,000 (2016: nil) were granted to nine directors of the Company (2016: nil).

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

The Group's exposure to credit risks is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 21% (2016: 16%) and 40% (2016: 33%) of the total trade receivables were due from the Group's largest customer and five largest customers respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

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

(b) Liquidity risk

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

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

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	2017 Contractual undiscounted cash outflows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	**648,697**	**179,428**	**61,429**	**–**	**889,554**	**858,751**
Trade and other payables (excluding contingent share consideration)	**597,349**	**–**	**–**	**–**	**597,349**	**597,349**
	1,246,046	**179,428**	**61,429**	**–**	**1,486,903**	**1,456,100**

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

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

(c) Market risk

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

(i) Currency risk

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

Exposure to currency risk

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

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

	2017			2016		
	United Stated Dollars	**Euros**	**Japanese Yen**	United Stated Dollars	Euros	Japanese Yen
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other receivables	**55,164**	**–**	**–**	24,925	9	45
Cash and cash equivalents	**76,686**	**15**	**–**	38,490	–	–
Restricted bank deposits	**58,825**	**–**	**–**	–	–	–
Interest-bearing borrowings	**(127,609)**	**–**	**–**	(107,991)	–	–
Trade and other payables	**(254,800)**	**(10,067)**	**(1,613)**	(303,549)	(11,340)	(3,307)
Gross exposure arising from recognised assets and liabilities	**(191,734)**	**(10,052)**	**(1,613)**	(348,125)	(11,331)	(3,262)
Notional amounts of foreign exchange forward contracts used as economic hedges	**91,479**	**–**	**–**	226,077	–	–
Net exposure arising from recognised assets and liabilities	**(100,255)**	**(10,052)**	**(1,613)**	(122,048)	(11,331)	(3,262)

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

(c) Market risk (Continued)

(i) Currency risk (Continued)

Exposure to currency risk (Continued)

Group:

	Average rate		Rate at reporting date	
	2017	2016	**2017**	2016
USD1	**6.7518**	6.6423	**6.5342**	6.9370
EUR 1	**7.6303**	7.3426	**7.8023**	7.3068
JPY 1	**0.0602**	0.0612	**0.0579**	0.0596

Sensitivity analysis

A 5 percent strengthening of the RMB against the following currencies at 31 December 2017 would have changed profit after tax by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	2017	2016
	RMB'000	*RMB'000*
Effect on profit after tax and equity (increase/(decrease))		
USD	**3,760**	4,655
EUR	**377**	467
JPY	**60**	132

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

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

(c) Market risk (Continued)

(ii) Interest rate risk

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

Profile

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

	2017 *RMB'000*	2016 *RMB'000*
Fixed rate borrowings	**708,751**	491,003
Variable rate borrowings	**150,000**	211,268
	858,751	702,271

Fair value sensitivity analysis for fixed rate borrowings

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

Cash flow sensitivity analysis for variable rate borrowings

As at 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax for the year and consolidated equity by approximately RMB1,125,000 (2016: RMB1,354,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and consolidated equity that would arise assuming that the change in interest rates had occurred at the reporting date and had been applied to re-measure those floating rate non-derivative instruments held by the Group which expose the Group to cash flow interest rate risk at the reporting date. The impact on the Group's profit after tax and consolidated equity is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2016.

(iii) Commodity price risk

The Group uses future contracts traded on the Shanghai Futures Exchange and London Metal Exchange to hedge against price fluctuations of raw materials, mainly copper. The future contracts are marked to market at the reporting date and the corresponding unrealised holding gains/losses are recorded in profit or loss. For details of the exposure to future contracts, please refer to note 20.

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

(d) Fair value measurement

(i) Financial assets and liabilities measured at fair value

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

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

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

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

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets:				
Derivative financial instruments:				
– Future contracts	1,765	1,765	–	–
Liabilities:				
Derivative financial instruments:				
– Future contracts	(4,752)	(4,752)	–	–
– Foreign exchange forward contracts	(6,855)	(6,855)	–	–
Contingent consideration payable				
– Current	(17,950)	–	–	(17,950)
– Non-current	(23,704)	–	–	(23,704)

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

(d) Fair value measurement (Continued)

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

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

During the years ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

30 COMMITMENTS

(a) Capital commitments

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

	2017 *RMB'000*	2016 *RMB'000*
Contracted for	3,526	8,122

(b) Operating lease commitments

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

	2017 *RMB'000*	2016 *RMB'000*
Less than 1 year	1,117	1,699
Over 1 year but less than 5 years	106	1,173
	1,223	2,872

31 RELATED PARTY TRANSACTIONS

Key management personal remuneration

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

	2017 *RMB'000*	2016 *RMB'000*
Short-term employee benefits	5,384	5,058
Equity-settled share-based payments	1,936	–
Post-employee benefits	20	43
	7,340	5,101

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2017, the Directors consider the immediate and ultimate controlling parties of the Group to be various parties including 3 entities and 9 individuals. These 3 entities do not produce financial statements available for public use.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRIC 22, *Foreign currency transactions and advance consideration*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, Share-based payment: *Classification and measurement of share-based payment transactions*	1 January 2018
IFRIC 23, *Uncertainty over Income Tax Treatments*	1 January 2019
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 9, Financial instruments (Continued)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

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

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

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

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). So far the Group has concluded that there would be no material impact of the application of the new requirements on the measurement for the financial liability designated at FVTPL.

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group has assessed how its impairment provisions would be affected by the new model. So far the Group has concluded that there would be no material impact on the Group's financial statements upon the application of the new requirements.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(v). Currently, revenue arising from publishing and operating online games is recognised over time, whereas revenue from other revenue streams is generally recognised when the risks and rewards of ownership have passed to the customers.

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

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

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

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

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

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 15, Revenue from contracts with customers (Continued)

(b) Significant financing component

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

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

Although advance payments are common in the Group's arrangements with its customers, the length of time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the goods or services) is usually a few months. Therefore, the Group has assessed that this component in the Group's advance payment schemes is not likely to be significant to the contract.

(c) Sales with a right of return

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

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

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

IFRS 16, Leases

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

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

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 30 (b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB1,223,000 for properties, RMB106,000 is payable between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	**4,495,001**	3,435,511	2,942,663	3,370,976	3,603,600
Gross profit	**524,434**	552,532	258,328	269,437	217,472
Profit attributable to equity shareholders of the Company	**135,544**	84,805	18,848	18,753	8,998

EARNINGS PER SHARE

	2017	2016	2015	2014	2013
Basic earnings per share[(1)] *(RMB)*	**0.16**	0.10	0.02	0.03	0.01
Diluted earnings per share[(1)] *(RMB)*	**0.16**	0.10	0.02	0.03	0.01

ASSETS,LIABILITIES AND EQUITY

	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000 (Restated)	2013 RMB'000
Non-current assets	**1,177,371**	1,288,991	1,191,086	1,126,052	877,265
Current assets	**1,478,085**	1,268,335	1,042,426	1,322,165	1,092,511
Total assets	**2,655,456**	2,557,326	2,233,512	2,448,217	1,969,776
Non-current liabilities	**313,239**	190,783	394,483	340,235	47,392
Current liabilities	**1,302,976**	1,480,653	1,035,954	1,390,812	1,239,470
Total liabilities	**1,616,215**	1,671,436	1,430,437	1,731,047	1,286,862
Net current assets/(liabilities)	**175,109**	(212,318)	6,472	(68,647)	(146,959)
Total assets less current liabilities	**1,352,480**	1,076,673	1,197,558	1,057,405	730,306
Total equity attributable to equity shareholders of the Company	**1,012,172**	858,131	778,772	680,718	663,347
Non-controlling interests	**27,069**	27,759	24,303	36,452	19,567

FIVE YEARS FINANCIAL SUMMARY

FINANCIAL RATIOS AND OTHER FINANCIAL INFORMATION

	2017	2016	2015	2014 (Restated)	2013
EBITDA *(RMB'000)*	**310,799**	221,524	128,913	125,702	117,172
Profitability ratios:					
Gross profit margin[2] *(%)*	**11.7%**	16.1%	8.8%	8.0%	6.0%
Operating profit margin[3] *(%)*	**4.8%**	4.7%	2.5%	1.9%	1.8%
Net profit margin[4] *(%)*	**3.0%**	2.5%	0.6%	0.6%	0.3%
EBITDA margin[5] *(%)*	**6.9%**	6.4%	4.4%	3.7%	3.3%
Rate of return on equity[6] *(%)*	**13.4%**	9.9%	2.4%	2.8%	1.4%
Liquidity ratios:					
Current ratio[7] *(times)*	**1.1**	0.9	1.0	1.0	0.9
Quick ratio[8] *(times)*	**0.6**	0.5	0.6	0.6	0.5
Inventory turnover[9] *(days)*	**40**	42	46	40	38
Trade receivable turnover[10] *(days)*	**34**	31	32	32	45
Trade payable turnover[11] *(days)*	**53**	69	58	46	45
Capital adequacy ratios:					
Gearing ratio[12] *(%)*	**40.6%**	38.3%	44.1%	59.6%	52.7%
Net gearing ratio[13] *(%)*	**56.0%**	56.4%	74.6%	114.6%	95.7%
Interest coverage ratio[14] *(times)*	**7.3**	5.1	2.4	2.8	2.4

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

(13) Net gearing ratio is equal to net debt net of restricted bank deposits and bank deposits with maturity over three months divided by total equity attributable to equity shareholders of the Company times 100%.

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