2018 ANNUAL REPORT

feiyu

Feiyu Technology International Company Ltd.

飛魚科技國際有限公司

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code : 1022

feiyu

To Better The Virtual World

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. BI Lin
Mr. CHEUNG Man Yu *(resigned on 27 September 2018)*
Ms. LUI Mei Ka *(appointed on 27 September 2018)*

JOINT COMPANY SECRETARIES

Mr. CHEUNG Man Yu *(resigned on 27 September 2018)*
Ms. LUI Mei Ka *(appointed on 27 September 2018)*
Ms. WEI Yulan *(appointed on 27 September 2018)*

LEGAL ADVISERS

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

As to Cayman Islands law:
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Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITORS

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

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
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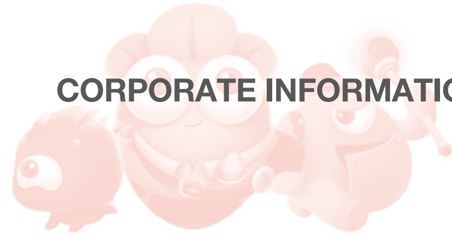
Cayman Islands



CORPORATE HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

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

INVESTOR RELATIONS

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

COMPANY'S WEBSITE

www.feiyuhk.com

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

1022

DATE OF LISTING

5 December 2014

FINANCIAL HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Year Ended 31 December				
	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)	2014 (RMB'000)
Revenue	**83,250**	131,697	188,133	322,147	339,071
Gross profit	**23,771**	92,854	130,949	267,665	296,778
(Loss)/Profit before tax	**(117,192)**	(389,635)	(153,269)	99,730	148,501
(Loss)/Profit after tax	**(119,460)**	(388,780)	(160,915)	94,988	142,368
(Loss)/Profit for the year attributable to owners of the parent	**(107,508)**	(377,455)	(151,002)	65,882	117,885
Non-IFRSs Measures					
– Adjusted net (loss)/profit attributable to owners of the parent (unaudited) (1)	**(94,097)**	(45,152)	5,474	163,160	185,596
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic and Diluted	**RMB(0.07)**	RMB(0.24)	RMB(0.10)	RMB0.04	RMB0.11

Note:

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2018 (RMB'000)	2017 (RMB'000)	2016 (RMB'000)	2015 (RMB'000)	2014 (RMB'000)
Assets					
Non-current assets	**492,279**	533,277	881,150	761,467	480,666
Current assets	**284,333**	228,972	319,001	564,323	746,653
Total assets	**776,612**	762,249	1,200,151	1,325,790	1,227,319
Equity and liability					
Total equity	**577,974**	635,688	1,025,774	1,070,443	1,150,106
Non-current liabilities	**21,986**	4,940	10,547	5,527	9,603
Current liabilities	**176,652**	121,621	163,830	249,820	67,610
Total liabilities	**198,638**	126,561	174,377	255,347	77,213
Total equity and liabilities	**776,612**	762,249	1,200,151	1,325,790	1,227,319

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present our annual report for the year ended 31 December 2018.

2018 was a challenging year for China's online game industry. Competition continued to be intensified both domestically and internationally, which made it increasingly costly to make a hit title, and since March 2018, regulatory restrictions on new game publications in China have made the situation even more gloomy.

The challenges negatively impacted the entire industry in terms of financial results for 2018 and we were no exception. Our total revenues decreased by 36.8% to approximately RMB83.3 million for the year ended 31 December 2018. Net loss attributable to owners of the parent was approximately RMB107.5 million, compared with approximately RMB377.5 million for the year ended 31 December 2017, representing a year-over-year decrease of 71.5%. Adjusted net loss attributable to owners of the parent was approximately RMB94.1 million, compared with RMB45.2 million for the year ended 31 December 2017.

Turning to our new games launched and Intellectual Property (IP) licensing activities in 2018, we, in August and November respectively, launched the mobile and Switch versions of I Am the Hero (英雄就是我), a popular console game developed by our Crazyant (瘋狂螞蟻) Studio in 2017 and was highly rated by global gamers. Another key game that we launched during the year was Demon Tower (魔界塔), which was recommended by Apple on its China App Store's home page for games and ranked number 2 on the paid download game list.

We also made progress on the IP licensing side of our business. During the year, we licensed IP from our Carrot Fantasy (保衛蘿蔔) series to multiple business partners for use across a variety of different formats, including the online drama Your Highness (拜見宮主大人), which was produced by Sohu, the offline themed events at the Perennial Jihua Mall in Foshan, Guangdong Province, PRC, as well as some comics sold in Hong Kong.

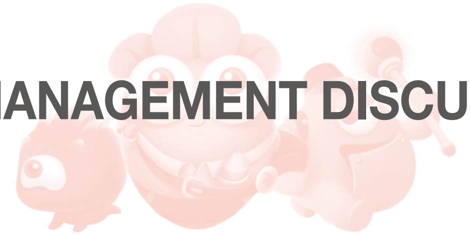
Heading into 2019, we believe that our Company will benefit significantly once the freeze on new game approvals eases. Going forward, we will continue to develop high quality games that leverage our renowned IPs including Carrot Fantasy (保衛蘿蔔), San Guo Zhi Ren (三國之刃) and Shen Xian Dao (神仙道). Our publishing team will also introduce appealing games to users by working with other game developers that have mastered different game genres.

I would like to take this opportunity to extend my deepest gratitude to our employees and management for their commitment and hard work throughout the year. I would also like to thank our shareholders for their continued support and confidence in our company.

YAO Jianjun
Chairman

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS



OVERVIEW

After recording continuous robust growth over the past few years, China's online game industry started to slow down in 2018. According to a report jointly published by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音數協游戲工委) and Gamma Data (伽馬數據), the total revenue of China's online game industry for 2018 was RMB214.4 billion, an increase of 5.3% year-over-year, as compared with double-digit growth over the previous years. Revenue from mobile games increased by 15.4% year-over-year to RMB134.0 billion in 2018, making up 62.5% of total industry revenue. The total user base of China's online games rose 7.3% year-over-year to 626 million.

China's online game industry faced unprecedented challenges starting in March 2018, when the Chinese government froze new game approvals for domestic publication until late-December 2018. Inevitably, the freeze on new game approvals negatively impacted the financial performance of game developers and operators in 2018.

For the year ended 31 December 2018, the Group generated total revenue of approximately RMB83.3 million, representing a year-over-year decrease of 36.8%. Net loss attributable to owners of the parent was approximately RMB107.5 million, compared with approximately RMB377.5 million for 2017, representing a year-over-year decrease of 71.5%. Adjusted net loss attributable to owners of the parent was approximately RMB94.1 million, compared with RMB45.2 million for 2017. The year-over-year decrease in total revenue was primarily due to: (i) a decrease in revenue from the Group's existing games as they reached the later stages of their respective lifecycles; (ii) the delayed launch of several new games as a result of the Company's strategic decision to further extend their development time to enhance quality and due to the above-mentioned months-long freeze on new game approvals; (iii) the diversification of game categories currently under development which requires additional time to recruit and establish research and development ("R&D") teams; (iv) the early stage of the Company's HTML5 games that have been developed and launched; the Company has primarily been focusing on increasing user base of these games rather than generating revenue. The decrease in the net loss attributable to owners of the parent was primarily because the Company booked a goodwill impairment loss of RMB300.1 million in 2017, which related to the Company's acquisition of Kailuo Tianxia in 2013, while no such impairment was made in 2018.

The Company's launch schedule for new games was constrained in 2018 due to the approval freeze mentioned above. During the year, the Company was able to launch 5 games. The mobile version of I Am the Hero (英雄就是我) was released with Tencent in August 2018 following the game's successful launch on Steam in 2017.

Also in August, the Company released the iOS version of Demon Tower (魔界塔), which was recommended by Apple on its home page for games in the China App Store and ranked number 2 on its list of paid games.

In November 2018, the Company launched I Am the Hero (英雄就是我) on Switch in Japan, Europe and the United States.

In terms of Intellectual property (IP) licensing, the Company made encouraging progress in 2018. In June 2018, the Company licensed Abo (阿波), the main character in the Carrot Fantasy (保衛蘿蔔) series, to Sohu, one of the leading internet companies in China, for the second season of its self-made online drama Your Highness (拜見宮主大人). In addition, the Company authorized Happy Creative Advertisement Co., Ltd. (佛山市樂創廣告有限公司) to host Carrot Fantasy (保衛蘿蔔)-themed events at the Perennial Jihua Mall in Foshan from 14 July to 30 September 2018 as a part of their promotion to increase traffic during the summer holiday season. In December 2018, the Company licensed Qing Ma Publishing Co., Ltd. (青馬文化事業出版有限公司) to use images from Carrot Fantasy (保衛蘿蔔) for their comics that are sold in the Hong Kong market.

Investment in Global OW Technology Co., Limited ("Global OW")

During the first half of 2018, the Company entered into an agreement to make an investment of RMB20.0 million into Global OW, a private limited company incorporated in Hong Kong, which holds a 97.132% equity stake in Etranss Remittance International Corp. ("Etranss"). Etranss is one of the few cryptocurrency exchanges approved by Bangko Sentral ng Pilipinas (BSP), the Philippine central bank. With the closing of the investment, the Company will own a 20.0% equity stake in Global OW. As at 31 December 2018, approximately RMB10.0 million had been paid.

Loan Facility of up to RMB120 million

On 13 July 2018, the Group was notified by the Chengjian sub-branch of the Industrial and Commercial Bank of China Xiamen Branch (the "Lender") that it agreed to provide a loan facility (the "Loan Facility") up to RMB120 million to Xiamen Fei Xiang Yue Investment Management Co., Ltd. (the "Borrower"), an indirect wholly-owned subsidiary of the Company. The Loan Facility has a repayment term of 10 years at a minimum interest rate to be determined with reference to the loan prime rate as at the drawdown date plus a rate of 0.737% per annum which is payable on a monthly basis. The principal of the loan shall be repaid through installments as agreed between the Lender and the Borrower after a maximum two-year grace period. The Group intends to apply the Loan Facility for the construction of the Company's R&D center on land located in Huli District, Xiamen, the PRC (the "Land") as disclosed in the Company's announcement dated 21 July 2016. The R&D center's main structure has been completed on 8 January 2019.

Disposal of 4.34% Equity Interest in Tap Tap

On 21 June 2018, the Company, through Xiamen Youli, entered into a capital injection agreement (the "Capital Injection Agreement") as one of the then existing shareholders and one of the then investors in Ewan, a company primarily engaged in developing and operating the popular mobile game distribution platform, TapTap. Under the terms of the Capital Injection Agreement, Xiamen Youli would inject a further RMB4.54 million in cash into Ewan, following the previous investment of RMB50.0 million in May 2017. Upon completion of the Capital Injection Agreement on 3 September 2018, Xiamen Youli's equity interest in Ewan decreased from 4.54% to 4.34%.

Subsequent to the year ended 31 December 2018, Xiamen Youli as a seller entered into share purchase agreements with XD and Xiamen Geecap respectively on 31 January 2019, pursuant to which Xiamen Youli agreed to dispose of, and XD and Xiamen Geecap agreed to acquire, an aggregate 4.34% equity interest in Ewan (representing the entire equity interest held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion, Xiamen Youli will no longer hold any interest in Ewan. This disposal provides an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group. For details, please refer to the Company's announcement dated 31 January 2019.

Termination of Exclusive Licensing Agreement with Meitu Networks

Xiamen Youli and Meitu Networks entered into an exclusive licensing agreement in relation to, among others, the operation, development and management of the game businesses for Meitu Networks on 21 March 2018. Considering the Group's future strategic direction and current market environment of game distribution platform, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, Xiamen Youli and Meitu Networks mutually agreed not to continue with the cooperation and entered into a termination agreement to terminate the cooperation contemplated under the exclusive licensing agreement. For details, please refer to the Company's announcements dated 21 and 22 February 2019.

Principal risks relating to our business

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

- We are required to comply with new policies or any amendment to current policies in relation to the game industry, which may affect our business operations;

- We face uncertainties in the continued growth of the mobile game and web game industries as well as the market acceptance of our mobile games and web games;

- Delays of game launches could negatively affect our operations and prospects;

- We depend on our key personnel, and our business and growth prospects may be severely disrupted if we lose their services or are unable to attract new key employees;

- If we are unable to extend the relatively short expected lifecycle of our web games and mobile games or if our games do not maintain their popularity during their expected lifecycle, our business, financial condition, results of operations and prospects could be materially and adversely impacted;

- We rely on third-party distribution and publishing platforms to distribute and publish our games. If these third-party distribution and publishing platforms fail to effectively promote our games on their platforms or otherwise fulfill their obligations to us, our business and results of operations will be materially and adversely affected; and

- We may not be able to adapt to the rapidly evolving mobile game and web game industries in China, in particular to the changes in technology. If we fail to anticipate or successfully implement new technologies, our games may become obsolete or uncompetitive, and our business, financial conditions, results of operations and prospects could be materially and adversely affected.

To mitigate the identified risks, we regularly monitor the risks, and review our business strategies and financial results. We have implemented the following strategies to ensure the risks are being managed:

- We set up our professional team to actively exchange views and information in relation to the new policies and amendments to current policies of the game industry with relevant regulatory authorities and take appropriate actions to respond to the changes and ensure the Company is in compliance with the latest applicable laws and regulations;

- We set up a user experience department and committed to tracking and responding to the changes in players' preferences in a timely and effective manner;

- We further strengthened our data analytics capabilities to continue developing popular games, improve player experience and enhance monetisation of our games;

- We closely monitor the progress of our pipeline games;

- We constantly enhance or upgrade our existing games with new features to attract players;

- To keep pace with the market, we brought on board new talent to keep the competitiveness of our R&D teams; and

- We maintain good relationships with a sufficient number of distribution and publishing platforms and we opened a Shenzhen office to underpin our long-term development in game distribution and publishing.

Outlook for 2019

In 2019, the Company plans to strengthen its core business and leverage its library of well-known IP to tackle the challenges that lie ahead. In February 2019, the Company launched the Android version of Peace in Chang An (天下長安), a 3D ARPG mobile game based on IP that was licensed from a TV series of the same name and Kung Fu Da Huang Dou (功夫大黃豆), a 3D RPG mobile game based on IP that was licensed from a Chinoiserie animated movie named TOFU. The Company has a number of games under development in its pipeline covering different genres, target users and market regions and plans to launch a number of new games in 2019 including Carrot Fantasy (保衛蘿蔔) series and the sequel to San Guo Zhi Ren (三國之刃). In addition, the Company's publishing team will introduce appealing games by working with other game developers that have mastered different game genres.

On the IP licensing front, the Company will continue to explore other opportunities that leverage IP from the Company's world-class Carrot Fantasy (保衛蘿蔔) game to broaden exposure for the brand and generate returns for the Company.

FINANCIAL REVIEW

Operating Information

Our Games

In 2018, we continued to focus on developing high quality mobile games, HTML5 Games and PC games to meet the constantly changing demand of gamers despite the intense competition in the game industry, and on strengthening our game distribution capabilities. During the year ended 31 December 2018, the Group launched 2 RPG games named Shou Hua San Guo (獸化三國) and Demon Tower (魔界塔), 1 PC game, named The Initial II (初體計劃2), and 1 HTML5 game, named Carrot Defense (保衛蘿蔔), on Facebook Messenger. The Group also launched the mobile version of I am a Hero (英雄就是我) in 2018 which has received very positive feedback.

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

	For the year ended 31 December			
	2018		2017	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operation				
Web games	**15,209**	**18.3**	15,850	12.0
Mobile games				
RPGs	**45,161**	**54.2**	86,439	65.6
Casual	**5,853**	**7.0**	7,320	5.6
PC games	**871**	**1.1**	3,233	2.5
H5 games	**1,856**	**2.2**	–	–
Total	**68,950**	**82.8**	112,842	85.7

Revenue from game operations as a percentage of total revenue decreased from approximately 85.7% in 2017 to approximately 82.8% in 2018. The contribution of RPG mobile games to total revenue decreased from approximately 65.6% in 2017 to approximately 54.2% in 2018. The decreases were primarily due to the decline in revenue from our existing RPG games as they reached the later stages of their respective lifecycles.

MANAGEMENT DISCUSSION AND ANALYSIS

Our Players

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

As at 31 December 2018, (i) our RPG mobile games and web games had approximately 225.1 million cumulative registered users, composed of approximately 171.3 million users for web games and approximately 53.8 million users for mobile games; (ii) our casual games had approximately 521.2 million cumulative activated downloads; (iii) our PC games had approximately 0.3 million cumulative activated downloads; and (iv) our HTML5 game had approximately 31.3 million cumulative registered users. For the month of December 2018, our RPG mobile games and web games had approximately 0.5 million MAUs in aggregate, composed of approximately 0.2 million MAUs for mobile games and approximately 0.3 million MAUs for web games; (ii) our casual games had approximately 5.0 million MAUs; and (iii) our H5 game had approximately 0.1 million MAUs.

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

	For the year ended 31 December		
	2018	2017	**Change%**
Average MPUs			
Web games (RPGs) (000's)	**10**	15	(33.3)
Mobile games (RPGs) (000's)	**51**	67	(23.9)
Casual (000's)	**110**	120	(8.3)
ARPPU			
Web games (RPGs) (RMB)	**121.6**	90.3	34.7
Mobile games (RPGs) (RMB)	**96.6**	134.9	(28.4)
Casual (RMB)	**4.4**	5.6	(21.4)

Note:

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

Average MPUs for mobile casual games decreased slightly from approximately 120,000 for the year ended 31 December 2017 to approximately 110,000 for the year ended 31 December 2018, primarily attributable to the decrease in the average MPUs for the Carrot Fantasy (保衛蘿蔔) game series, which have reached the later stages of their expected lifecycles in 2017. Average MPUs for mobile RPG games decreased from approximately 67,000 for the year ended 31 December 2017 to approximately 51,000 for the year ended 31 December 2018, primarily due to San Guo Zhi Ren (三國之刃), one of our hit titles, entering the later stage of its lifecycle since 2017. MPUs for web games were approximately 10,000 for the year ended 31 December 2018 compared with approximately 15,000 for the year ended 31 December 2017. The decrease was due to the fact that our web games reached the later stages of their expected lifecycles, as well as our strategic focus shifted from web games to mobile games since 2013.

ARPPU for web games increased from approximately RMB90.3 for the year ended 31 December 2017 to approximately RMB121.6 for the year ended 31 December 2018, primarily driven by an increase in ARPPU for the web version of Shen Xian Dao (神仙道) and Da Hua Shen Xian (大話神仙), which have entered the mature stages of their expected lifecycle when loyal players are willing to spend more. ARPPU for RPG mobile games decreased from approximately RMB134.9 for the year ended 31 December 2017 to approximately RMB96.6 for the year ended 31 December 2018 due to the decline in ARPPU from our RPG mobile game San Guo Zhi Ren (三國之刃), which have begun to reach the later stage of its expected lifecycle since 2017. The newly launched RPG game Demon Tower (魔界塔) which is a casual style RPG game with lower ARPPU also lowered our ARPPU for RPG mobile games. ARPPU for casual games decreased from approximately RMB5.6 for the year ended 31 December 2017 to approximately RMB4.4 for the year ended 31 December 2018. The decrease was primarily due to a decrease in ARPPU from the Carrot Fantasy game series.

As part of our business strategies, we continue to launch various in-game promotions and activities, release regular updates for our premium games, and offer high-quality customer services, in order to enhance the features of our games and to maintain user interest, which we believe played a significant role in retaining our players and expanding our player base.

The year ended 31 December 2018 compared to the year ended 31 December 2017

The following table sets forth the income statement of our Group for the year ended 31 December 2018 compared with the year ended 31 December 2017.

	For the year ended 31 December		
	2018	2017	**Change %**
	(RMB'000)	(RMB'000)	
Revenue	**83,250**	131,697	(36.8)
Cost of sales	**(59,479)**	(38,843)	53.1
Gross profit	**23,771**	92,854	(74.4)
Other income and gains	**33,488**	29,865	12.1
Selling and distribution expenses	**(10,629)**	(40,099)	(73.5)
Administrative expenses	**(60,207)**	(64,327)	(6.4)
Research and development costs	**(93,633)**	(93,701)	(0.1)
Finance costs	**(1,904)**	(1,333)	42.8
Other expenses	**(5,179)**	(312,676)	(98.3)
Share of losses of associates	**(2,899)**	(218)	1,229.8
LOSS BEFORE TAX	**(117,192)**	(389,635)	(69.9)
Income tax (expense)/credit	**(2,268)**	855	(365.3)
LOSS FOR THE YEAR	**(119,460)**	(388,780)	(69.3)
Attributable to:			
Owners of the parent	**(107,508)**	(377,455)	(71.5)
Non-controlling interests	**(11,952)**	(11,325)	5.5

Revenue

The following table sets forth a breakdown of our revenue for the years ended 31 December 2018 and 2017:

	For the year ended 31 December			
	2018		2017	
	(RMB'000)	**(% of Total Revenue)**	(RMB'000)	(% of Total Revenue)
Game Operation	**68,950**	**82.8**	112,842	85.7
Online game distribution	**940**	**1.1**	2,916	2.2
Licensing and IP-related income	**6,889**	**8.3**	9,698	7.4
Advertising revenue	**6,169**	**7.4**	5,980	4.5
Technical service income	**302**	**0.4**	261	0.2
Total	**83,250**	**100.0**	131,697	100.0

Total revenue decreased by approximately 36.8% to approximately RMB83.3 million for the year ended 31 December 2018 from the year ended 31 December 2017.

Game operation revenue decreased by approximately 38.9% to approximately RMB69.0 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decrease was primarily due to San Guo Zhi Ren (三國之刃) hitting the late stage of its lifecycle since 2017. The decrease was also due to Sprites Legend (靈妖記－神仙道外傳) reaching the later stage of its lifecycle in early-2018. The decrease in revenue from our other existing games also dragged down our total revenue as the games reached the mature stages of their respective product lifecycles. In addition, the decrease was also due to (i) a delay in the launch of our new key games as a result of the approval freeze; (ii) the Group's strategic decision to invest additional development time and resources to enhance the quality of such games; and (iii) the change in new product strategy, such as developing HTML5 games, in order to capture market opportunities. In addition, there was an immaterial revenue contribution from the PC and HTML5 games launched in 2018, and the Company's newly launched RPG games also underperformed in 2018.

Revenue from online game distribution decreased by approximately 67.8% to RMB0.9 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decline was primarily because the games launched by the Company's overseas game distribution and operation team entered the mature stage of their lifecycle.

Licensing and IP-related income decreased by approximately 29.0% to approximately RMB6.9 million for the year ended 31 December 2018 from the year ended 31 December 2017. The decrease was primarily attributable to the recognition of a one-off licensing fees for the Southeast Asian version of San Guo Zhi Ren (三國之刃) of approximately RMB1.1 million upon termination of its operation in the Southeast Asia Region for the year ended 31 December 2017. There was no such one-off licensing fees recognised for the year ended 31 December 2018. The decrease was also due to a reduction in licensing fees for the web version of Shen Xian Dao (神仙道) under the renewed licensing agreement in May 2017, as a result of the game reaching the later stage of its lifecycle.

Advertising revenue increased slightly from approximately RMB6.0 million for the year ended 31 December 2017 to approximately RMB6.2 million for the year ended 31 December 2018. This rise was primarily attributable to the contribution of advertising revenue from Carrot Fantasy for WeChat (保衛蘿蔔－迅玩版), which was introduced together with mini games on WeChat in December 2017.

Technical service income of approximately RMB302,000 for the year ended 31 December 2018 was mainly generated by the provision of technical support services by our technical department.

Cost of sales

Our cost of sales increased by approximately 53.1% from approximately RMB38.8 million for the year ended 31 December 2017 to approximately RMB59.5 million for the year ended 31 December 2018. The increase was primarily due to the recognition of costs associated with the operation of Meitu's game distribution platforms of approximately RMB14.5 million for the year ended 31 December 2018 while there was no such cost recognised for the year ended 31 December 2017. The Group entered into an exclusive licensing agreement with Meitu Networks to operate, develop and manage Meitu Network's game businesses in late-March, 2018. Considering the Group's future strategic direction and current market environment of game distribution platform, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, the Group and Meitu Networks mutually agreed not to continue with the cooperation and entered into an agreement to terminate the cooperation contemplated under the exclusive licensing agreement. There was no material revenue generated during the cooperation period in 2018. The increase in our cost of sales was also attributable to an increase in employee costs from approximately RMB24.7 million for the year ended 31 December 2017 to approximately RMB28.9 million for the year ended 31 December 2018, associated with the establishment of our Shenzhen game distribution and operation team in the second half of 2017. In addition, the increase was also due to the recognition of approximately RMB4.1 million of costs for the year ended 31 December 2018 associated with the share options granted in the second half of 2017 to a key management member who is responsible for the operation of our web and mobile games while there was no such cost for the year ended 31 December 2017.

Gross profit and gross profit margin

Gross profit decreased by approximately 74.4% from approximately RMB92.9 million for the year ended 31 December 2017 to approximately RMB23.8 million for the year ended 31 December 2018. Our gross profit margin for the year ended 31 December 2018 was 28.6% compared with 70.5% for the year ended 31 December 2017.

Other income and gains

Our other income and gains increased by approximately 12.1% from approximately RMB29.9 million for the year ended 31 December 2017 to approximately RMB33.5 million for the year ended 31 December 2018, primarily due to an increase in investment income from approximately RMB3.8 million for the year ended 31 December 2017 to approximately RMB10.9 million for the year ended 31 December 2018 which was attributable to the recognition of gain on fair value change of our debt investments at fair value through profit or loss. The increase was partially offset by a decrease in government grants from approximately RMB14.2 million for the year ended 31 December 2017 to approximately RMB13.1 million for the year ended 31 December 2018 as the government grants are in connection with the Group's financial performance. The increase in other income and gains was also partially offset by the decrease in bond interest income from approximately RMB8.1 million for the year ended 31 December 2017 to approximately RMB6.0 million for the year ended 31 December 2018, which was mainly due to a decrease in the balance of bond investments following the disposal of bonds in 2018 to invest in the equity investments and to support the construction of our R&D center and headquarters.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 73.5% from approximately RMB40.1 million for the year ended 31 December 2017 to approximately RMB10.6 million for the year ended 31 December 2018. The decrease was mainly attributable to a decrease in advertising fees from approximately RMB26.8 million for year ended 31 December 2017 to approximately RMB5.1 million for the year ended 31 December 2018, primarily due to the decreased number of promotional activities for Sprites Legend (靈妖記－神仙道外傳) in 2018 as the Company tried to revive interest in the game since its launch in the second half of 2017 which did not perform up to expectations. The decrease in the advertising fees was also due to the decreased number of promotional activities for the Company's other self-distributed and operated games. In addition, the decrease in selling and distribution expense was also attributable to a decrease in channel fees from approximately RMB11.4 million for year ended 31 December 2017 to approximately RMB3.3 million for the year ended 31 December 2018, as games distributed and operated by ourselves entered a mature stage of their respective lifecycles.

Administrative expenses

Our administrative expenses decreased by approximately 6.4% from approximately RMB64.3 million for the year ended 31 December 2017 to approximately RMB60.2 million for the year ended 31 December 2018. The decrease was primarily attributable to a decline in the costs related to share options granted in November 2014 from approximately RMB9.5 million for the year ended 31 December 2017 to approximately RMB4.7 million for the year ended 31 December 2018.

Research and development costs

Our R&D costs remained stable, recording at approximately RMB93.7 million for the year ended 31 December 2017 as compared with approximately RMB93.6 million for the year ended 31 December 2018.

Finance costs

Finance costs primarily consisted of interest expenses on time loans taken out by the Company as financial leverage for life insurance policies and general working capital. Finance costs increased by approximately 42.8% from approximately RMB1.3 million for the year ended 31 December 2017 to approximately RMB1.9 million for the year ended 31 December 2018 primarily due to higher interest rates and the appreciation of the HKD against RMB.

Other expenses

Our other expenses decreased significantly by approximately 98.3% from approximately RMB312.7 million for the year ended 31 December 2017 to approximately RMB5.2 million for the year ended 31 December 2018. The decrease was primarily attributable to a goodwill impairment loss of approximately RMB300.1 million related to the Company's acquisition of Kailuo Tianxia in 2013 as disclosed in the Prospectus made in 2017 while there was no such impairment made in 2018. The decrease was also attributable to an investment loss of approximately RMB5.8 million recognised during the year ended 31 December 2017 related to the disposal of one of the Company's subsidiaries that was engaged in game development while no such loss was recognised for the year ended 31 December 2018.

Income tax

We recorded an income tax expense of approximately RMB2.3 million for the year ended 31 December 2018, which compared with an income tax credit of approximately RMB0.9 million for the year ended 31 December 2017. The change was mainly attributable to an income tax refund that was received by two subsidiaries of the Company that were profitable and had recognised income tax expense of approximately 5.7 million in total for the year ended 31 December 2016, but were certified in the second half of 2017 to be software enterprises and thus exempted from income tax for the year ended 31 December 2016. There was only a tax refund of approximately RMB0.4 million that was received during the year ended 31 December 2018. The change in income tax expenses was also due to the decrease in revenue and profits from the Company's subsidiaries that were not exempted from income tax.

Loss for the year

As a result of the above, the loss for the year improved by 69.3% from approximately RMB388.8 million for the year ended 31 December 2017 to approximately RMB119.5 million for the year ended 31 December 2018. And the loss attributable to owners of the parent improved by 71.5% from approximately RMB377.5 million for the year ended 31 December 2017 to approximately RMB107.5 million for the year ended 31 December 2018.

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

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

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

	For the year ended 31 December		
	2018	2017	**Change %**
	(RMB'000)	(RMB'000)	
Loss for the year attributable to owners of the parent	**(107,508)**	(377,455)	(71.5)
Add:			
Share-based compensation	**13,411**	28,133	(52.3)
Amortisation of intangible assets recognised for acquisitions	**–**	3,599	(100.0)
Impairment loss of goodwill and intangible asset recognised for Carrot Fantasy CGU	**–**	300,076	(100.0)
Loss on fair value change of contingent consideration recognised for acquisitions	**–**	495	(100.0)
Total	**(94,097)**	(45,152)	108.4

Financial Position

As at 31 December 2018, total equity of the Group was approximately RMB578.0 million, compared with RMB635.7 million as of 31 December 2017. The decrease was mainly due to the adjusted loss for the year attributable to owners of the parent of approximately RMB94.1 million recognised for the year ended 31 December 2018. The decrease was partially offset by the changes in fair value of the Group's unlisted equity investments of approximately RMB44.3 million recognised in other comprehensive income.

As at 31 December 2018, the Group recorded net current assets of approximately RMB107.7 million, which was flat compared with approximately RMB107.4 million as at 31 December 2017.

Liquidity and Capital Resources

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

	2018 (RMB'000)	2017 (RMB'000)	**Change %**
Net cash flow used in operating activities	**(121,130)**	(75,819)	59.8
Net cash flow from investing activities	**32,376**	38,280	(15.4)
Net cash flow from/(used in) financing activities	**32,211**	(40,606)	(179.3)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(56,543)**	(78,145)	(27.6)
Cash and cash equivalents at the beginning of year	**155,397**	237,028	(34.4)
Effect of foreign exchange rate changes, net	**6,068**	(3,486)	(274.1)
Cash and cash equivalents at the end of year	**104,922**	155,397	(32.5)

Our total cash and cash equivalent was approximately RMB104.9 million as at 31 December 2018, compared with approximately RMB155.4 million as at 31 December 2017. The decrease was primarily due to the investments in associates and the construction of our R&D center and headquarters.

As at 31 December 2018, approximately RMB41.8 million of our financial resources (31 December 2017: RMB32.8 million) were held in deposits denominated in non-RMB currencies. We currently do not hedge transactions undertaken in foreign currencies but manage our foreign exchange exposure through limiting our foreign currency exposure and constant monitoring. The Group has adopted a prudent cash and financial management policy. In order to better control costs and minimise costs of funds, the Group's treasury activities are centralised and cash is generally deposited at banks and denominated mostly in Renminbi, Hong Kong dollars and United States Dollars.

As at 31 December 2018, the Group had an aggregate bank loans of approximately RMB93.0 million (31 December 2017: RMB53.5 million), of which approximately RMB83.7 million is repayable within one year and approximately RMB9.3 million is payable after one year but within five years.

As at 31 December 2018, the Group's bank loans included time loans of approximately HK$65.5 million (31 December 2017: HK$64.0 million) with an interest rate of 4.413% which was secured by certain life insurance policies as detailed below, which was used by the Company as financial leverage for the life insurance policies; time loans of HK$30.0 million with an interest rate of 2.683% which was used by the Company as general working capital; and bank loan for the construction of the Company's R&D center of approximately RMB9.3 million with an interest rate of 5.047% which was secured by the land use rights of the Land and the construction-in-progress on the Land.

Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income, Debt Investments at Fair Value Through Profit or Loss and Available-for-sale ("AFS") Investments Held

As at 31 December 2018, we had debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss of approximately RMB357.9 million (AFS Investments as at 31 December 2017: RMB370.0 million), which represents the straight bonds, convertible bonds and convertible preferred shares issued by banks or reputable companies, with Standard & Poor ("S&P") ratings above BB– and coupon rates ranged from 4.25% to 6.5% per annum which were invested by the Company, the investment in life insurance policies by the Company and interests held by the Group in nine unlisted companies and one company listed on the National Equities Exchange And Quotations of the PRC. In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. The Company can terminate the policy at any time and receive the refund based on the surrender value of the contract(s) at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest rate will be reduced to 2% per annum. The crediting interest rate for the year ended 31 December 2018 was 3.9%.

The principal of the debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 31 December 2018 are not protected. The fair value of debt investments at fair value through other comprehensive income and debt investments at fair value through profit or loss in straight bonds, convertible bonds and convertible preferred shares have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market inputs. The fair value of the life insurance policies represented the surrender value of such insurance policies which is detailed in the above paragraph. The fair values of unlisted equity investments and debt investments were assessed by independent appraisers or employed other available methods.

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss are set out in the section headed "Performance and Future Prospect of Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income and Debt Investments at Fair Value Through Profit or Loss Held" below.

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

Performance and Future Prospect of Significant Debt Investments at Fair Value Through Other Comprehensive Income, Equity Investments Designated at Fair Value Through Other Comprehensive Income and Debt Investments at Fair Value Through Profit or Loss Held

Details of the Group's debt investments at fair value through other comprehensive income, equity investments designated at fair value through other comprehensive income and debt investments at fair value through profit or loss as at 31 December 2018 are presented as follows:

(A) Straight Bonds

Name of the straight bonds	Notes	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018 (RMB'000)	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018 (RMB'000)	Fair value as at 31 December 2018 (RMB'000)	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
Huarong Finance II Co., Ltd. ("Huarong Finance II")	1	567	50	1,394	0.4%	0.2%
Huarong Finance 2017 Co., Ltd. ("Huarong Finance 2017")	2	875	(799)	18,847	5.3%	2.4%
Bank of East Asia ("BEA")	3	840	258	4,835	1.4%	0.6%
Zhongrong International Bond 2015 Limited ("ZIB 2015")	4	434	–	–	–	–

Notes:

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

   On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million). In the second half of 2018, the Group sold part of the above straight bond with an aggregated nominal amount of US$3,300,000 for an aggregated consideration of US$3,325,000 (equivalent to approximately RMB22.8 million).

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

Pursuant to the annual results announcement of Huarong Group for the year ended 31 December 2018, Huarong Group recorded a total income of approximately HK$1,496.1 million and profit for the year of approximately HK$72.5 million. The decrease in business performance was mainly due to a greater fall in valuation of some financial assets, which was affected by the great fluctuations in capital market after Huarong Group implemented the International Financial Reporting Standard 9 — Financial Instruments in 2018. Huarong Group believes the short-term market volatility and the effects of change in fair value of a few of individual investments will cause no material impact on its long-term development.

The Group believes that Huarong Group is using a number of measures to track progress and is therefore optimistic about the future prospect of Huarong Group.

2. Please refer to note 21 to the financial statements for the details of the bond issued by Huarong Finance 2017.

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

3. Please refer to note 21 to the financial statements for the details of the bond issued by BEA.

   On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by The Bank of East Asia, Limited with a nominal amount of US$4,000,000 at a consideration of US$4,093,000 (equivalent to approximately RMB27.9 million). The bond has a coupon interest rate of 4.25% for first five years and an aggregate of the then-prevailing U.S. Treasury Rate and the Spread, 2.7%, for the next five years with a maturity period of 10 years. In the second half of 2018, the Group sold part of the above straight bond with an aggregated nominal amount of US$3,300,000 at an aggregated consideration of US$3,338,000 (equivalent to approximately RMB23.1 million).

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

   Pursuant to the annual results announcement of BEA for the year ended 31 December 2018, BEA recorded the total operating income of approximately HKD17,072 million and profit for the year of approximately HKD6,554 million. With customer-centric approach, resilience and innovative spirit, BEA will further develop cross-border financing business to generate strong returns for its investors.

   The Group believes that with growing opportunities as the Mainland continues to open up its financial sector and as the Guangdong-Hong Kong-Macao Greater Bay Area initiative gains momentum, BEA will proactively explore and capture emerging business opportunities and achieve new heights and the Group is therefore optimistic about the future prospect of BEA.

4. In September 2016, the Group invested in a bond issued by ZIB 2015 with a nominal amount of US$3,000,000 at a consideration of US$3,062,000 (equivalent to approximately RMB20.4 million). The bond has a coupon interest rate of 6% per annum with a maturity period of 3 years. On the maturity date 15 June 2018, the bond was fully redeemed. Please refer to note 21 to the financial statements and the annual report of the Company for the year ended 31 December 2017 for details of the bond.

(B) Convertible Bonds

Name of the convertible bond	Note	Interest income recognized in consolidated statement of profit or loss for the year ended 31 December 2018 (RMB'000)	Gain/(loss) on fair value changes recognized in consolidated statement of comprehensive income for the for the year ended 31 December 2018 (RMB'000)	Fair value as at 31 December 2018 (RMB'000)	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
Standard Chartered PLC	1	861	439	13,738	3.8%	1.8%

Notes:

1. Please refer to note 21 to the financial statements for the details of the convertible bond issued by Standard Chartered PLC.

   On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million). In January 2018, the Group sold part of the above perpetual convertible bond with a nominal amount of US$1,000,000 for a consideration of US$1,056,000 (equivalent to approximately RMB6.7 million).

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

   Pursuant to the annual report of Standard Chartered Group for the year ended 31 December 2018, Standard Chartered Group recorded the operating income of approximately US$14,789 million and profit for the year of approximately US$1,109 million. Standard Chartered Group will combine the best of the old – in connecting people through trade and commerce – together with the best of the new in innovation, digital technologies and increasing client-centricity, to continue to grow strongly, in a safe and sustainable manner.

   The Group believes that Standard Chartered Group will perform steadily with encouraging progress on several fronts and is therefore optimistic about the future prospect of Standard Chartered Group.

(C) Convertible Preferred Shares

Name of the convertible preferred Shares	Notes	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018	Fair value as at 31 December 2018	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
		(RMB'000)	(RMB'000)	(RMB'000)		
Industrial and Commercial Bank of China Limited ("ICBC")	1	1,987	(224)	34,025	9.5%	4.4%
China Cinda Asset Management Co., Ltd. ("Cinda")	2	442	(49)	9,563	2.7%	1.2%

Notes:

1. Please refer to note 21 to the financial statements for the details of the convertible preferred shares issued by ICBC.

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

   Pursuant to ICBC Group's annual results announcement for the year ended 31 December 2018, ICBC Group recorded operating income of approximately RMB725,121 million and net profit of approximately RMB298,723 million. By adhering to the principles of "delivering excellence, adhering to our founding mission, customers' favorite, leading in innovation, security and prudence, and people-oriented", ICBC Group continued to enhance its service capability for the real economy, consolidated the foundation of operation and management, optimized its profitability structure and intensified its risk precaution and control ability, achieving stability in both benefits and quality.

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

2. Please refer to note 21 to the financial statements for the details of the convertible preferred shares issued by Cinda.

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

   Pursuant to Cinda Group's annual results announcement for the year ended 31 December 2018, Cinda Group recorded total income of approximately RMB107,026.0 million and profit for the year of approximately RMB11,879.9 million.

   In January 2019, the Group sold all of the above convertible preferred shares with a nominal amount of US$1,500,000 for a consideration of US$1,361,000 (equivalent to approximately RMB9.1 million).

(D) Investment in Life Insurance Policies

Name of the investment in life insurance policies	Note	Interest income recognised in consolidated statement of profit or loss for the year ended 31 December 2018 (RMB'000)	Gain/(loss) on fair value changes recognised in consolidated statement of comprehensive income for the for the year ended 31 December 2018 (RMB'000)	Fair value as at 31 December 2018 (RMB'000)	Percentage of total FVOCI and FVPL Investments at 31 December 2018	Percentage of total assets of the Group as at 31 December 2018
Investment in life insurance policies	1	–	6,960	94,823	26.5%	12.2%

Note:

1. Please refer to note 21 to the financial statements for the details of the investments in life insurance policies.

   Pursuant to the annual performance review of the life insurance policies in 2018, the credit interest rate of each insurance policy for the year ended 31 December 2018 is 3.9%. Considering the insurance nature of the life insurance policies, the historical performance of the life insurance policies and the clause regarding the guaranteed interest, the Group believes that the performance of the life insurance policies will be stable.

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

(E) Unlisted Equity Investments

Company Name	Notes	**Percentage of shareholdings at 31 December 2018** (RMB'000)	**Fair value as 31 December 2018**	**Percentage of total FVOCI and FVPL investments 31 December 2018**	**Percentage of the total assets of the Group as 31 December 2018**
Xiamen eName Technology Co., Ltd.	1	2.0%	13,963	3.9%	1.8%
Ewan	2	4.34%	108,500	30.3%	14.0%
Others	3	–	14,118	3.8%	1.8%

Notes:

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

   Pursuant to the eName's third quarterly report for the nine months ended 30 September 2018, eName recorded unaudited revenue of approximately RMB112.2 million and net profit after tax of approximately RMB9.4 million. Pursuant to the eName's forecasted annual result announcement for the year ended 31 December 2018, eName estimated to record a net loss attributable to the owners of the parent ranging from RMB60.0 million to RMB70.0 million. The loss was mainly due to the recognition of an inventory impairment loss on the domain names purchased by eName of approximately RMB73.4 million considering the downward trend of current market environment of domain industry. Excluding such extraordinary item, eName would record a forecasted net profit attributable to owners of the parent ranging from RMB3.4 million to RMB13.4 million.

   The group believes that as a leading company of the domain industry, eName will strive to track progress and the operating performance will be improved as the domestic economy is recovering.

2. Ewan, one of the non-wholly owned subsidiaries of XD, is primarily engaged in developing and operating an emerging mobile game distribution platform, TapTap, which generates revenue from advertisement.

   The Group entered into an investment agreement to inject RMB50.0 million in cash into Ewan, as a result of which the Group had held 4.54% of the equity interests in Ewan since 1 June 2017. On 21 June 2018, the Group entered into the Capital Injection Agreement to further inject RMB4.54 million in cash into Ewan. Upon completion of the Capital Injection Agreement on 3 September 2018, the Group's equity interests in Ewan decreased from 4.54% to 4.34%. On 31 January 2019, the Group entered into a share purchase agreements to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest indirectly held by Group in Ewan) at a total cash consideration of RMB108,500,000. Upon completion, the Group will no longer hold any interest in Ewan. For details, please refer to the announcement of the Company dated 31 January 2019.

   Pursuant to XD's interim report for the six months ended 30 June 2018, Ewan recorded unaudited revenue of approximately RMB125.7 million and net profit after tax of approximately RMB30.3 million for the six months ended 30 June 2018.

3. Others comprised five (5) unlisted limited liability companies and none of these investments accounted for more than 1.4% of the total assets of the Group as at 31 December 2018.

(F) Unlisted Debt Investments

Company Name	Notes	**Percentage of shareholdings at 31 December 2018**	**Gain/(loss) on fair value changes recognised in consolidated statement of profit or loss for the year ended 31 December 2018**	**Fair value as at 31 December 2018**	**Percentage of total FVOCI and FVPL Investments at 31 December 2018**	**Percentage of total assets of the Group as at 31 December 2018**
			(RMB'000)	(RMB'000)		
APOLLO CAPITAL L.P. ("APOLLO")	1	8.42%	1,852	17,738	5.0%	2.3%
Others	2	–	5,496	26,307	7.4%	3.4%

Notes:

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

   In June 2018, the Group sold part of the above investment with a cost value of US$3,024,000 for a consideration of US$3,786,000 (equivalent to approximately RMB25.0 million).

   Pursuant to APOLLO's financial statements for the year ended 31 December 2018, APOLLO recorded revenue of approximately US$4.4 million and net profit after tax of approximately US$4.1 million. APOLLO disposed part of its investments during the year ended 31 December 2018 and recorded a gain on disposal of investment as revenue. There was no impairment made for any of its investments for the year ended 31 December 2018.

   The Group believes that APOLLO has sufficient capital and is managed by experienced management team and the sectors it invests in have positive prospects and therefore is optimistic about its future business prospects and growth.

2. Others comprised two (2) unlisted debt investments and none of these investments accounted for more than 1.9% of the total assets of the Group as at 31 December 2018.

There was no impairment made for any investments in debt instruments for the year ended 31 December 2018. Investments in equity instruments do not involve any separate impairment accounting under IFRS 9 – Financial Instruments.

Gearing ratio

On the basis of total liabilities divided by total assets, the Group's gearing ratio was 25.6% as at 31 December 2018 and 16.6% as at 31 December 2017.

Capital expenditures

The following table sets forth our capital expenditures for the year ended 31 December 2018 and 2017:

	For the year ended 31 December		
	2018	2017	**Change %**
	(RMB'000)	(RMB'000)	
Construction in progress	**45,927**	3,562	1,189.4
Property, plant and equipment	**2,971**	5,762	(48.4)
Total	**48,898**	9,324	424.4

Capital expenditures consisted of property, plant and equipment and construction in progress, of which the former include but are not limited to office equipment, company vehicles for employees' use and leasehold improvements. Total capital expenditures for the year ended 31 December 2018 were approximately RMB48.9 million compared with RMB9.3 million for the year ended 31 December 2017, representing an increase of approximately RMB39.6 million which was primarily due to the increase in construction costs for our R&D center and headquarters in Xiamen, PRC from approximately RMB3.6 million for the year ended 31 December 2017 to approximately RMB45.9 million for the year ended 31 December 2018. The increase was partially offset by the decrease in the purchase of company vehicles for employees' use from approximately RMB2.6 million for the year ended 31 December 2017 to approximately RMB0.5 million for the year ended 31 December 2018.

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

On 2 May 2018, the Company entered into an investment agreement to make an investment of RMB20.0 million into Global OW, a private limited company incorporated in Hong Kong, which holds a 97.132% equity stake in Etranss, one of the cryptocurrency exchanges approved by Bangko Sentral ng Pilipinas (BSP), the Philippine central bank. With the closing of this investment, the Company will own a 20% equity stake in Global OW. As at 31 December 2018, approximately RMB10.0 million had been paid.

On 21 June 2018, the Company, through Xiamen Youli, entered into a Capital Injection Agreement as one of the then existing shareholders and one of the then investors of Ewan, pursuant to which Xiamen Youli will further inject RMB4.54 million in cash into Ewan. As at 21 June 2018 and immediately prior to completion of the Capital Injection, Xiamen Youli owned a 4.54% equity stake in Ewan. Upon completion of the Capital Injection Agreement on 3 September 2018, Xiamen Youli's equity interests in Ewan decreased from 4.54% to 4.34%.

Subsequent to the year ended 31 December 2018, Xiamen Youli as a seller entered into share purchase agreements on 31 January 2019, to dispose of an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest indirectly held by Xiamen Youli in Ewan) for a total cash consideration of RMB108,500,000. Upon completion, the Group will no longer hold any interest in Ewan. The disposal provides an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group.

Save for those disclosed in this annual report, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2018. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report. However, the Group will continue to identify new opportunities for business development.

Pledge of Assets

As at 31 December 2018, a bank loan of the Group amounting to HK$65.5 million which was used as a lever of our investment in life insurance policies was secured by the life insurance policies with a fair value of US$13.8 million. As at 31 December 2018, a bank loan of the Group of RMB9.3 million (under a total Loan Facility of up to RMB120.0 million) was used for the construction of the Company's R&D center, which was secured by the land use rights of the Land and the construction-in-progress on the Land with total carrying values of approximately RMB154.1 million.

Contingent liabilities and guarantees

As at 31 December 2018, we did not have any unrecorded significant contingent liabilities, guarantees or any litigation with claims made against us.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, we had 497 full-time employees, the majority of whom were based in Xiamen, PRC. The following table sets forth the number of our employees segregated by their functions as at 31 December 2018:

	Number of Employees	% of Total
Development	274	55.1
Operations	134	27.0
Administration	84	16.9
Sales and marketing	5	1.0
Total	497	100.0

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

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

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

Foreign currency risk

In the year ended 31 December 2018, the Group did not encounter significant foreign currency risk from its operations and did not hedge against any fluctuation in foreign currency.

Interest rate risk

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

Use of Net Proceeds from Listing

The net proceeds from the Global Offering were approximately HK$585.0 million (equivalent to approximately RMB463.2 million) after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing.

The following table sets forth the use of net proceeds from the Global Offering:

	Net Proceeds from Global Offering			
	Available to utilise		**Utilised (up to 31 December 2018)**	**Unused balance**
	RMB'000	Percentage	RMB'000	RMB'000
Expanding and enhancing game portfolio	185,281	40%	185,281	–
Expanding marketing and promotion activities	92,641	20%	68,678	23,963
Establishing and expanding international operations in selected overseas markets	69,480	15%	40,659	28,821
Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities	69,480	15%	69,480	–
Supplementing working capital and for other general corporate purposes	46,320	10%	46,320	–
	463,202	100%	410,418	52,784

Note: The figures above are approximate figures.

The unused balance of the net proceeds of approximately RMB52.8 million are currently placed with reputable banks as the Group's cash and cash equivalents.

As at 31 December 2018, the Group had utilised the net proceeds from the Global Offering of RMB410.4 million as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The unused balance of approximately RMB52.8 million, consisted of (i) approximately RMB24.0 million allocated for use in expanding our marketing and promotional activities, and in particular, for promoting one of our new games, Peace in Chang An (天下長安), a TV-series-IP-related ARPG game, which was launched in February 2019; and (ii) approximately RMB28.8 million allocated for use in establishing and expanding international operations in select overseas markets, and in particular, for promoting a new RPG game in the Middle East, which is under testing and is expected to be launched in the first half of 2019 and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2019.

Corporate Social Responsibility

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

Our Group has adopted a 3Rs strategy for waste management: Reduce, Reuse and Recycle, such as installing an efficient water flushing system in the restrooms and performing regular checks to prevent leakages.

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

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

Compliance with Relevant Laws and Regulations

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

In relation to game development and operation, the Company is committed to complying with the laws and regulations such as The Interim Measures for the Administration of Online Games (Amended in 2017), the Copyright Law of the PRC (2010 Amendment), Online Publishing Service Management Rules (2016), Anti-addiction Notice (2007) and Notice Regarding Commencement of Authentication of Real Names for Anti-addiction System on Online Games.

In addition, as a company listed on the Main Board of the Stock Exchange, the Company is subject to, among others, the requirements under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("Companies Ordinance"), the Listing Rules, the Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission, and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"). Any changes in the applicable laws and regulations are brought to the attention of the relevant departments from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Reporting Period and Scope

We are pleased to present the Environmental, Social and Governance ("ESG") Report (the "Report") of Feiyu Technology International Company Limited ("Feiyu" or the" Company" or the "Group" or "us"). This Report comprises of our ESG policies, approaches, objectives, performances and achievements during the period from 1 January to 31 December 2018 (the "Reporting Period"). This Report covers Feiyu's core business – namely provision of online game services in Mainland China, which contribute over 90% of the Group's revenue.

Reporting Standard

This Report has been prepared in accordance with the disclosure requirements of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. For more information regarding corporate governance, please refer to the "Corporate Governance Report" section included in our Annual Report 2018.

Your Feedback

We appreciate our stakeholders' valuable opinions which boost our continuous improvement. Should you have any feedback on this Report and our sustainability performances, you are welcome to email us at IR@feiyu.com.

ABOUT FEIYU

Business Overview

We are the forerunner of mobile and web games developer and operator in Mainland China. Our iconic game products including Shen Xian Dao (神仙道), Carrot Fantasy (保衛蘿蔔), San Guo Zhi Ran (三國之刃) have been outperforming and receiving numerous recognitions from different parties. In long run, we aim to uphold our corporate philosophy of being marvellously creative with simple way.

用簡單創造精彩！

Marvellous Creative With Simple Way!

Awards and Recognitions

Awards		Certificates	Research and Development
Push Heroes (推拉英雄)	• China Original Game Fine Publishing Project (中國原創遊戲精品出版工程)	• Technology-based Small-and-medium-sized Enterprise Accreditation (科技型中小企業認證)	• 12 Patents
Super Phantom Cat (超級幻影貓)		• Animation Enterprises Accreditation (動漫企業認證)	• 43 Software Copyrights
I am the Hero (英雄就是我)	• Best Pixel Game in 2018 Family Game Forum (金手柄獎最佳像素遊戲)	• National Cultural Export Key Enterprises (國家文化出口重點企業)	• 27 Trademark
Demon Tower (魔界塔)	• Most Popular Independent Game in Black Stone Glory (黑石獎硬核年度最受歡迎獨立遊戲)	• Fujian Province National Cultural Industry Demonstration Base (福建省文化產業示範基地）	

FEIYU'S MILESTONES

May 2011
Shen Xian Dao
(神仙道) published

July 2012
Carrot Fantasy
(保衛蘿蔔) published

November 2013
Carrot Fantasy 2
(保衛蘿蔔2) published

August 2014
San Guo Zhi Ren
(三國之刃) published

January 2016
Super Phantom Cat
(超級幻影貓) published

January 2017
Push Heroes
(推拉英雄) published

June 2017
Eat Fatty
(你胖你先吃) published

August 2017
Super Phantom Cat 2
(超級幻影貓2) publiished

September 2017
Ling Yao Ji
(靈妖記) published

November 2017
I Am The Hero
(英雄就是我) published

August 2018
Demon Tower
(魔界塔) published

ESG RISK MANAGEMENT

The Board has overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for determining and evaluating the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Group has adopted appropriate policies and procedures to evaluate and improve the functions of risk management and internal control. For detailed information, please refer to "Corporate Governance Report" section included in our Annual Report 2018.

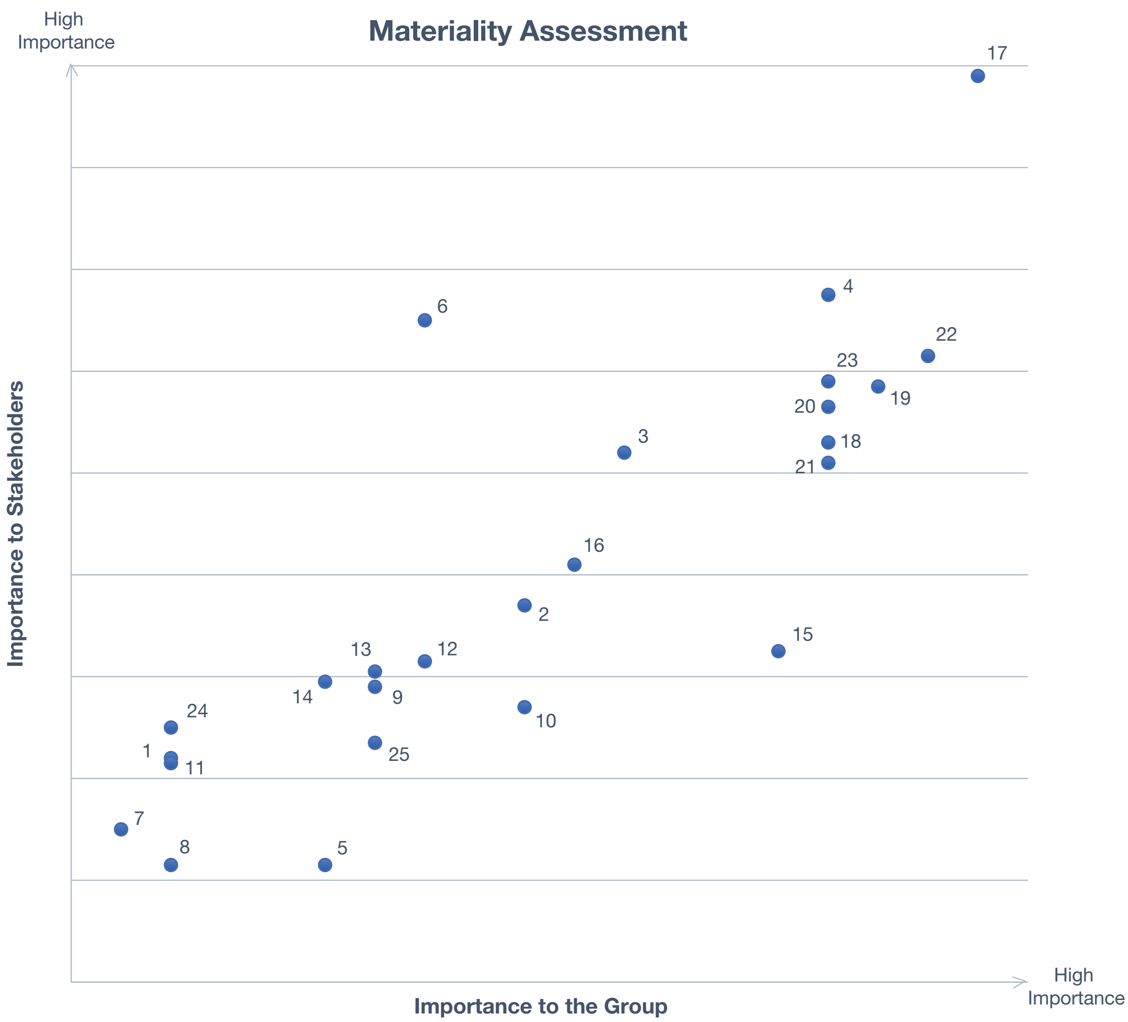
COMMUNICATION WITH STAKEHOLDERS

Feiyu aims at achieving sustainable growth and sharing our success together with our stakeholders. We have identified employees, players and customers, shareholders and investors, suppliers and business partners, government and the community as our key stakeholders. To facilitate the communication with our stakeholders, we have established multiple communication platforms including official WeChat, QQ, Weibo, online forums etc. to collect their feedbacks. We value every feedback as they would be crucial in further enhancing our performances in business and sustainability strategies.

Stakeholder Engagement Survey

This year, stakeholder engagement survey has been conducted to understand stakeholders' viewpoints towards our environmental, social and governance measures and our previous ESG reports. We have identified 25 sustainability issues that are important to the business of the Group:

Workplace quality	**Environmental protection and green operations**	**Operational practices**	**Business operations**	**Contribution to society**
1. Diversification and anti-discrimination	7. Greenhouse gas emissions	13. Supplier management	17. Game development ability	24. Participation in voluntary activities
2. Employee relations	8. Air emissions	14. Suppliers' environmental and social performance assessment	18. Game health and safety	25. Charitable donations
3. Occupational health and safety	9. Electricity and water saving	15. Anti-fraud and anti-corruption	19. Protection of players' data	
4. Training and Development	10. Resource consumption	16. Disaster emergency plan	20. Product responsibility	
5. Anti-child and forced labour	11. Waste handling		21. Players' complaint	
6. Employee benefits	12. Green procurement		22. Players' satisfaction	
			23. Intellectual property	



Afore-said materiality assessment indicates that the material aspects include:

ESG Categories	Material aspects	Section
Workplace quality	4. Training and development	Training and development
Business operations	17. Game development ability 18. Game health and safety 19. Protection of players' data 20. Product responsibility 21. Players' complaint 22. Players' satisfaction 23. Intellectual property	Investment in creativity Undertake responsibilities

We strive to ensure proper measures on the most significant issues are addressed adequately throughout our business activities.

Sustainable

FEIYU

Fair Employer, Great Place to Work

Environmentally Friendly

Investment in creativity

Youth Support

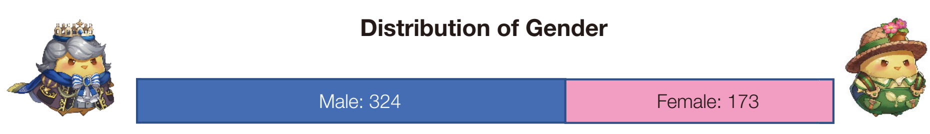
Undertake Responsibilities

FAIR EMPLOYER, GREAT PLACE TO WORK

We are principally engaged to create quality games and hone our players' gaming experience. Our great ideas are realised thanks to our passionate, creative, experienced and knowledgeable employees. Hence, as an employer, we are committed to providing a good working environment, promoting fairness and equality.

Regular reviews have been conducted to ensure the compliance of all relevant laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare, including Labour Law of the People's Republic of China ("PRC") (《中華人民共和國勞動法》), Social Insurance Law of the PRC (《中華人民共和國社會保險法》), Prohibition of Using Child Labour (《禁止使用童工規定》) and other relevant rules and regulations.

Employee Overview



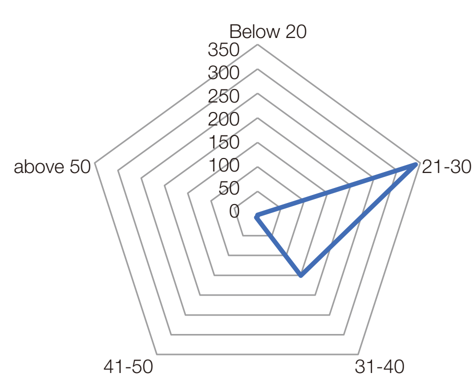
Distribution of employees by job type

Development 55.1%

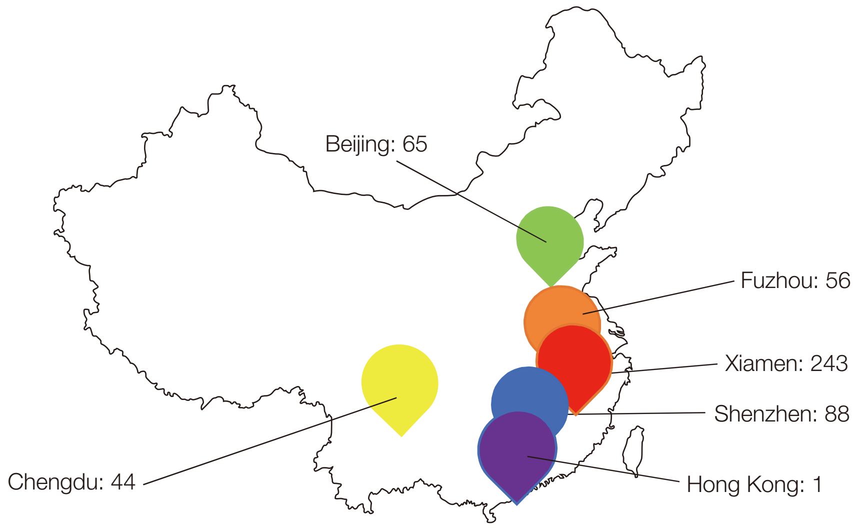
Operations 27.0%

Sales and Marketing 1.0%

Administration 16.9%



Distribution of Employees by Location



Attracting Talents

Our employees serve as the key driver of our success. Hence, we welcome any enthusiastic, energetic and creative talents on board to join our team. We search for talents through internal and external channels such as internet recruitment, campus recruitment, job fair and headhunting companies and will look for the most suitable candidates through written test, aptitude test, interviews and scenario test.

Aside from satisfying remuneration standards, our talent acquisition program includes a 5-day work week, paid annual leave, discretionary bonus, mandatory provident fund scheme, social insurance, transportation allowance, training subsidies and long serving employees' awards. As we strive to provide a promising workspace environment, we do offer a wide range of staff facilities such as fitness centre and staff lounge to our staffs.

We uphold the principle of diversity and equal opportunity during recruitment and hire employees regardless of their gender, nationality, race, age, family status and other factors irrelevant to their competencies, qualifications and passion in games. We also promise to maintain zero tolerance approach in regard to any form of discrimination, harassment and abuse in the workplace to safeguard the right of every employee.

Health and Safety

Our employees' physical, mental and social well-being are one of the main priorities of our Company. Therefore, we endeavour to protect all our employees from any occupational hazards and casualties. During the Reporting Period, we were not aware of any cases of injury or death at work and any violations of occupational safety related laws and regulations, including the Law on the Prevention and Control of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》) and other relevant rules and regulation.

Healthy Hobbies

- Yoga Class
- Fitness Centre
- Sport Teams
- Massage Chairs

Safe Workplace

- Smoke free workplace
- Staff lounge
- Safety training
- Fire drift

Festival Celebration

- Celebrations on Chinese New Year, Girls' Day, Children's Day, Tanabata
- Festival, Teachers' Day, Mid-autumn Festival, Halloween

Team Buildings

- Team-building activities
- Incentive trips
- Monthly activity subsidies

Training and Development

As one of the pioneers of the industry, we ensure that we are always updated with the latest market trends. Thus, we ensure that staffs always equip themselves and grow continuously through various trainings and workshops. We offer employees a comprehensive career prospect. Each department or project team will conduct performance appraisal on a regular basis to assess employees' performance. The results form the basis for their promotion.

Total Training Hours in 2018: over **700** hours

Training topics include:

- Sharing on game release
- Introduction in ECS and Entitas Practice
- Sharing on 48-hour Game Development Competition
- Planning on Puzzle Game Copywriting
- Client-base Development and Practice
- Intermediate Course in Digital Editing
- Analysis on the Latest Fiscal and Taxation Policy
- 2018 Beijing Animation Game Executive training

Labour Standards

We ensure that we are complied with the Law of the PRC on the Protection of Minors (中華人民共和國未成年人保護法) and Prohibition of Using Child Labour (《禁止使用童工規定》). The uses of child labour and forced labour are strictly prohibited in the Group. As such, during the recruitment process, our human resources team will filter employees' identity documentations. Also, regular inspections are conducted to eradicate any existence of forced or child labour. Our suppliers are also subject to our policy against the use forced and child labour.

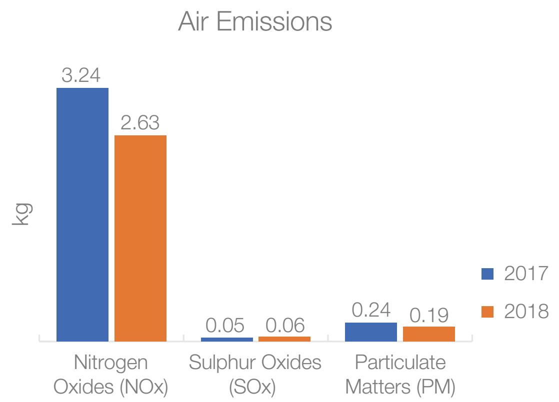
During the Reporting Period, the Group was not aware of any incidents of non-compliance with all relevant rules and regulations on child or forced labour.

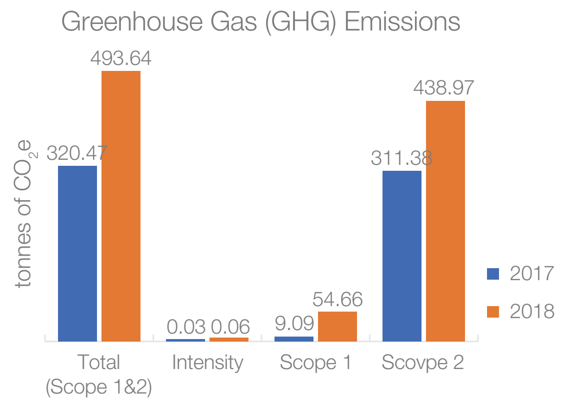
ENVIRONMENTALLY FRIENDLY

Due to the nature of our business, our operation activities have no significant impact on the environment and natural resource. In spite of that, we comply with any applicable local laws and regulations related to environmental protection such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). Also, we infuse environmentally friendly strategies into our daily operations to constantly conserve resources and reduce emissions.

Reducing Emissions[i]

Our emissions mainly come from the use of purchased electricity to support offices' daily operations, petrol from motor vehicles as well as general office waste. Our major emission figures during the Reporting Period are presented below:





Due to our business nature, the Group did not generate a significant amount of hazardous waste. For the non-hazardous waste, it mainly consisted of office general waste. It is collected and disposed of by the respective building management.

	2018	2017
Total waste produced	81.45 tonnes	124.47 tonnes
Intensity of total waste produced (per floor area)	9.63 tonnes	12.97 tonnes[ii]
Total waste disposed	76.26 tonnes	121.24 tonnes
Total waste collected for recycling	5.22 tonnes	3.23 tonnes

i According to the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) issued by World Business Council For Sustainable Development and World Resources Institute, scope 1 direct emissions cover GHG emissions directly produced by businesses owned or controlled by the Group, while scope 2 indirect emissions cover GHG emissions of "indirect energy" resulted from electricity (purchased or acquired), thermal energy, refrigeration and steam internally consumed by the Group.

ii The figure in 2017 has been restated to include the intensities of total waste disposed and recycled.

With the purpose of minimising our impact on the environment, we have deployed the following emission reduction initiatives in our offices:

Video conferencing	Video conferencing has been an effective alternative to our usual business trips. As we reduce the number of business trip engagements, emissions from vehicles and aviation fuel contribute to a significant amount of carbon footprint can be reduced on a large scale.
Promoting public transportation	The use of public transportation is highly recommended among our employees. In light of this, we successfully reduce the use of private vehicles by providing regular shuttle bus. Shared bikes are also available within the Software Park in Xiamen.
Green catering	The use of non-recyclable cutleries and food utensils has always been an environmental concern as it creates a great burden on landfills. In order to reduce our waste emissions, we have adopted the following green catering measures to raise staff awareness in recycling: • encourage our staff to bring their own reusable cutleries • prefer the use of degradable lunch boxes to reduce the dependence on non-degradable Styrofoam lunch boxes • return used glass bottles to suppliers for recycling

Saving Resources

To support our daily operations, resources we mainly consume constitute of purchased electricity and unleaded petrol from motor vehicles, domestic-used water and office paper.[iii]

Energy

The following table lists out the major energy consumption figures:

	2018	2017
Total energy consumption	643.55 MWh	475.21 MWh
Intensity of total energy consumption (per floor area)	76.1 kWh/m^2	49.50 kWh/m^2
Purchased electricity	607.06 MWh	443.52 MWh
Non-renewable fuel	36.50 MWh	31.69 MWh

In terms of energy saving, we have adopted the following measures in the hope of boosting energy efficiency to a large extent:

- Prefer the purchase of electrical appliances with high-level energy efficient labels
- Advocate our staff to turn off lights and air-conditioners when leaving the area

Water[iv]

The following table lists out the major water consumption figures:

	2018	2017
Total water consumption	5,132.09 m^3	5,118.82 m^3
Intensity of total water consumption (per floor area)	0.65 m^3/m^2	0.53 m^3/m^2

Our water consumption is mainly generated from cleaning, sanitation and pantries and is not a material area of resource usage. Our efforts include installing efficient water flushing system (e.g., dual flush system) in our washrooms and performing regular checks to ensure no leakage to avoid wastage. As our offices consume water from municipal source, there is no issues in sourcing water that is fit for purpose.

Paper

Despite the inevitable use of office paper in our office, attempts have been made to build a paperless office. For example, we advocate duplex printing and paper recycling. Also, we minimise the use of paper communication by promoting electronical communication through email or intranet.

[iii] Packaging material used for finished products is not applicable to the Group's business.

[iv] Since certain property management offices were not able to provide the provision of water supply and sub-meter for individual occupants, the data of water consumption does not include that of Xiamen Veewo Games Co., Ltd. (厦門微沃時刻科技有限公司), and Beijing Wei'an Haixing Information Technology Co., Ltd. (北京偉岸海星信息科技有限公司).

INVESTMENT IN CREATIVITY

48-Hour Game Development Competition

Since 2013, Feiyu has been organizing 48-Hour Game Development Competition, aiming at fostering the development of innovative game concepts and promoting collaboration within teams. It is open to the entire Group, in which participants form groups and produce a game demo within 48 hours.

The 6th 48-Hour Game Development Carnival was held in 27-29 July 2018, with more than 50 participants. The theme this year was "Find more about Game". Among all the game demos developed by the participating teams, 3 of them got the highest votes and the corresponding teams were awarded with cash prize as commendations.

Players' Satisfaction

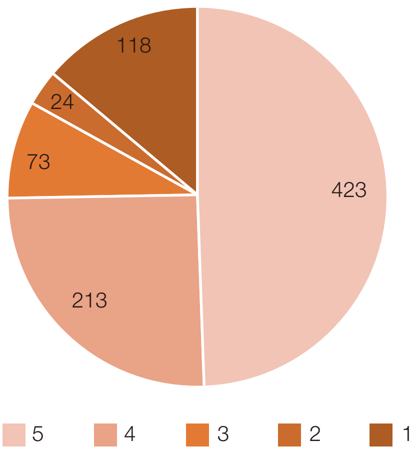
To boost creativity among our game talents so as to create more innovative and fascinating games, we ought to understand players' pattern and interests to cater to their needs. As a result, we put great store by enhancing players' satisfaction through listening and responding to their opinions through various online and offline channels including online forum, customer service hotline, mailbox and instant chat in games. Our dedicated customer service team will handle players' concerns 24 hours a day, seven days a week and respond to them in a timely manner. They can also reach us at our social media accounts, such as Sina Weibo and WeChat, to seek game assistance and guidance. For games that we license exclusively to our distribution publishing partners, certain customer service will be provided by such partner.

During the Reporting Period, we interviewed 851 players who reached us via QQ with an auto-generated customer satisfaction survey. They were asked to score our customer service from 1 (lowest) to 5 (highest).

75% of the interviewees rated 4 or above

Average Customer Satisfaction Rate over **83%**

Customers Satisfaction
from 1 January 2018 to 31 December 2018



YOUTH AND COMMUNITY SUPPORT

Feiyu Students Sponsorship Scheme

Poverty is not a hindrance to success. Since September 2017, Feiyu has been participating in the Students Sponsorship Scheme. 40 high school students in Yunnan Province were selected at their freshmen year based on their academic results and financial conditions. Sponsorship are granted to students for 3 years. It is hoped that students have equal right to education regardless the financial conditions of their families.

Feiyu Charity Sales

Feiyu has been actively helping those in need in our community. Meanwhile, several charity sales were held during the Reporting Period:

- Feiyu Mooncake Charity Sales

  On 14 September, 2018, a Mooncake Charity Sales was held at Feiyu's headquarter in Xiamen. Over RMB9,000 were raised.

- Feiyu 10th Anniversary Charity Sales

  There were more than 500 staff purchasing keyrings, toys, and accessories in the charity sales. A total approximately of RMB30,000 were raised.

The donation of both activities was received by Feiyu Charity Fund, which is used to support Feiyu Students Sponsorship Scheme.

Feiyu Mooncake Charity Sales

Feiyu 10th Anniversary Charity Sales

Support the underprivileged

During the 10th Anniversary Charity Sales, a special zone was set up for handicraft made by members from a job support centre for the disabled in Xiamen (廈港街道殘疾人職業援助中心). The charity sales eventually raised approximately of RMB1,000, which would be received by respective handicraft makers. The event is more than giving money support to the makers, it enlightens hope for them as they can make a living with their talents despite disability.

Software Park Marathon

On 26 April 2018, our headquarter staffs participated in the Software Park Marathon organised by the Administrative Committee of the Xiamen Software Park Phrase 2. 12 staffs joined the marathon whilst 6 staffs assisted in the event. The marathon not only raises the awareness for maintaining physical health, but also bonds the Software Park community through sports.

UNDERTAKE RESPONSIBILITIES

Supply Chain Management

All of the Group's suppliers are located in the mainland. We mainly engage with local suppliers in order to minimise the carbon footprint generated from transportation in pursuit of long-term environmental sustainability.

Our Supply Chain Management process:

Supplier Code of Conduct

- Communicate our expectations and requirements to suppliers and business partners

Supplier Assessment

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

Site Inspection

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

Follow up

- Discuss with management of our suppliers for on-going improvements

Feiyu has been endeavouring in sustainable development to bring positive impact to the environment and society. With the same token, we also expect our suppliers to uphold environmental, social and governance principles at all times. As such, we establish Supplier Code of Conduct and expect our suppliers can put emphasis on environmental and social issues including anti-corruption, product and service quality, environmental protection and occupational health and safety etc. during daily operations.

Health and Safety of Players

As we aspire to deliver quality game products, our players' health and safety are highly regarded. To comply with the Implementation of Anti-addiction System on Online Games in Protecting the Physical and Mental Health of Minors (《關於保護未成年人身心健康實施網絡遊戲防沉迷系統的通知》) in the PRC, we have established a real-name registration system in our online games. Also, health and safety messages are conveyed to our players in games and they are suggested to rest and relax their eye, arm and fingers after engaging themselves in our game for a certain period of time.

Intellectual Property Rights

Being a pioneer in the game industry, we are keen on innovations and dedicated to developing the latest online and mobile games to cater for our players' interests and needs. To maintain our leading position in the industry, we spare no efforts in safeguarding the efforts of our game development team by applying for intellectual property rights, including patents, copyrights and trademarks for our newly developed games in a timely manner in accordance with the Copyright Law of the PRC (《中華人民共和國著作權法》) and other applicable laws and regulations.

Protect Personal Data Privacy

Privacy and confidentiality of our users' data including players' account details and payment information are to be taken meticulously. Therefore, we are in stringent compliance with applicable laws and regulations, including but not limited to the Decision on Strengthening Network Information Protection (《關於加強網絡信息保護的決定》) and the Provisions on Protection of Personal Information of Telecommunication and Internet Users (《電信和互聯網用戶個人信息保護規定》). We require our staff to sign an intellectual property and privacy protection agreement and promise not to disclose any confidential information such as codes, animations, staff information etc. to the third party without prior consent. In addition, no employees can access player's information without any authorization. Under tight security control, server rooms and any other platforms which store player's information can only be accessed via fingerprint authorization.

During the Reporting Period, no complaints concerning breaches of client privacy and data loss have been filed.

Advertising and Labelling

We are in stringent compliance with applicable laws and regulations in relation of advertising including the Advertising Law of the PRC (《中華人民共和國廣告法》) to ensure the accuracy and reliability of the content of any promotion materials for the sake of consumers' rights. Besides, due to our business nature, labelling is not applicable to the Group.

Anti-corruption

We are highly committed in complying with all relevant laws and regulations in relation to corruption, money-laundering, fraud and distortion in order to promote business integrity and ethics in the workplace. Staffs can report any suspected illegal acts or cases of violating the Company's internal policies to the management. We promise that we will take the reported cases seriously and conduct thorough investigations and follow-up actions in a timely manner. In the hope of upholding good corporate governance, we incorporate topics about anti-corruption and business ethics into our daily training in order to raise staffs' awareness in anti-corruption.

During the Reporting Period, there were no reported incidents in relation to corruption brought against the Group, its subsidiaries or its employees and we are not aware of any non-compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering, including Criminal Law of the PRC (《中華人民共和國刑法》) and the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE INDEX

Subject Areas, aspects, general disclosure and key performance indicators ("KPIs")		Section	Page Number
A. Environmental			
Aspect A1: Emissions			
General Disclosure 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.		Reducing Emissions	P. 42-43
KPI A1.1	The types of emissions and respective emission data.	Reducing Emissions	P. 42-43
KPI A1.2	Greenhouse gas emissions in total and intensity.	Reducing Emissions	P. 42-43
KPI A1.3	Total hazardous waste produced and intensity.	The Group does not generate significant amount of hazardous waste.	N/A
KPI A1.4	Total non-hazardous waste produced and intensity.	Reducing Emissions	P. 42-43
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Reducing Emissions	P. 42-43
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Reducing Emissions	P. 42-43

Aspect A2: Use of Resources			
General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		Saving Resources	P. 44
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Saving Resources	P. 44
KPI A2.2	Water consumption in total and intensity.	Saving Resources	P. 44
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Saving Resources	P. 44
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Saving Resources	P. 44
KPI A2.5	Total packaging material used for finished products and with reference to per unit produced.	The Group does not involve any packaging material.	N/A
Aspect A3: Environment and Natural Resources			
General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		The Group does not generate significant impact on the environment and natural resources.	N/A
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	N/A	N/A

B. Social

Employment and Labour Standards

Aspect B1: Employment

General Disclosure		Fair Employer, Great Place to Work	P. 37-44

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.

KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Employee Overview	P. 38-39
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Not disclosed for this Reporting Period	N/A

Aspect B2: Health and Safety

General Disclosure		Health and Safety	P. 40

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.

KPI B2.1	Number and rate of work-related fatalities.	Health and Safety	P. 40
KPI B2.2	Lost days due to work injury.	Health and Safety	P. 40
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety	P. 40

Aspect B3: Development and Training			
<u>General Disclosure</u> Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		Training and Development	P. 41
KPI B3.1	The percentage of employees trained by gender and employee category.	Not disclosed for this Reporting Period	N/A
KPI B3.2	The average training hours completed per employee by gender and employee category.	Not disclosed for this Reporting Period	N/A
Aspect B4: Labour Standards			
<u>General Disclosure</u> 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.		Labour Standards	P. 41
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards	P. 41
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Not disclosed for this Reporting Period	N/A
Operating Practices			
Aspect B5: Supply Chain Management			
<u>General Disclosure</u> Policies on managing environmental and social risks of the supply chain.		Supply Chain Management	P. 49
KPI B5.1	Number of suppliers by geographical region.	Not disclosed for this Reporting Period	N/A
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.	Supply Chain Management	P. 49

Aspect B6: Product Responsibility			
General Disclosure 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.		Undertake Responsibilities	P. 45-46, 49-50
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	The Group does not produce any products.	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed for this Reporting Period	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Rights	N/A
KPI B6.4	Description of quality assurance process and recall procedures.	The Group does not produce any products.	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Protect Personal Data Privacy	P. 50

Aspect B7: Anti-Corruption			
General Disclosure 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.		Anti-corruption	P. 50
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.	Anti-corruption	P. 50
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Anti-corruption	P. 50
Community			
Aspect B8: Community Investment			
General Disclosure 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.		Youth and Community Support	P. 47-48
KPI B8.1	Focus areas of contribution.	Not disclosed for this Reporting Period	N/A
KPI B8.2	Resources contributed to the focus area.	Not disclosed for this Reporting Period	N/A

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual report were:

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors
YAO Jianjun (**姚劍軍**), aged 37, is a founder of the Group and a Controlling Shareholder. He joined the Group on 12 January 2009 and was appointed as Chairman, Chief Executive Officer and Executive Director on 6 March 2014. He is also the chairman of the Nomination Committee. Mr. Yao is responsible for the overall management and strategic planning and development of the Group. Mr. Yao also sits on the boards of various companies within the Group, including acting as the chairman of Xiamen Guanghuan since 1 January 2011, director of Xiamen Feiyou since 24 June 2014, director of Xiamen Zhangxin since 27 October 2014, director of Xiamen Yidou since 3 September 2014, director of Xiamen Feichang Information Technology Co., Ltd. (廈門飛暢信息科技有限公司) since 5 May 2015, director of Xiamen Xiyu Internet Technology Co., Ltd. (廈門喜魚網絡科技有限公司) since 27 May 2015, director of Xiamen Yufei Xingkong Information Technology Co., Ltd. (廈門魚飛星空信息科技有限公司) since 1 June 2015, director of Milin Feiyu Technology Co., Ltd. (米林飛魚科技有限公司) since 10 July 2015, director of Xiamen Feiyu Wuxian Cultural Media Co., Ltd. (廈門飛魚無限文化傳媒有限公司) since 24 July 2015, director of Jiaxi Global Limited (家喜環球有限公司) since 20 August 2015, director of Beijing Wei'an Haixing Information Technology Co., Ltd. (北京偉岸海星信息科技有限公司) since 21 October 2015, director of Xiamen Haohaowan Information Technology Co., Ltd. (廈門好好玩信息科技有限公司) since 4 January 2016, director of Shenzhen Feiyu Xingkong Technology Company Ltd. (深圳飛魚星空科技有限公司) since 23 February 2017 and director of Shenzhen Feiyu Digital Technology Co., Ltd. (深圳飛魚數字科技有限公司) since 10 July 2017.

Mr. Yao also acted as a director of Xiamen Plump Fish Cultural Media Co., Ltd. (廈門小魚飛飛文化傳媒有限公司) (a company focused on designing, producing and distributing cartoons, films, TV dramas, online dramas and other visual products) since 25 November 2015, director of Xiamen Zhangxin Internet (a company directly held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen Jianyu and Mr. Bi Lin as at 31 December 2018) since 18 December 2015, director of Xiamen Kangaroo Family Information Technology Company Ltd. (廈門袋鼠家信息科技有限公司) (a company developing parenting education app) since 4 January 2016, director of eName Technology Co., Ltd. (廈門易名科技股份有限公司) (a company providing domain name services and listed on National Equities Exchange and Quotations) from 18 December 2015 to 10 December 2016, the general partner of Xiamen Xiao Yu Fei Fei Investment Partnership (limited partnership) since 17 October 2016,director of Ewan (Shanghai) Network Technology Co., Ltd. (易玩（上海）網絡科技有限公司) which is the investee of the Company from 27 May 2017 to 10 February 2019, director of Talent Talk Limited (聯遠有限公司) (a company incorporated in Hong Kong with limited liability) since 1 November 2018 and director of Sharelink Technology International Company Ltd. (享聯科技國際有限公司) (an exempted company incorporated in the Cayman Islands with limited liability) since 9 November 2018.

Mr. Yao has more than 18 years of experience in the internet industry, including establishing and operating various websites and developing online games. Since April 2018, he has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會). He had founded a number of websites, including CNZZ.com (站長統計) (a website providing statistical services for PRC websites; the website subsequently received venture capital investments from IDG and Google and was eventually acquired by Alibaba), Chinaz.com (站長之家) (a website providing various technology and other services to PRC webmasters), Wo Ai Wo Wang (我愛我網), Yongchun Information Habour (永春信息港) and Changan City Gaming Community (長安城遊戲社區) (a website operating martial arts multiple user domain games). In 2012, Mr. Yao was elected as one of the 30 representative entrepreneurs under age 30 by Forbes China. In 2016, Mr. Yao was granted Hurun Entrepreneurship & Innovation Award · Fujian by Hurun Report.

Mr. Yao is a founder of Xiamen Guanghuan. He has also been the executive director of Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技股份有限公司, formerly known as 廈門享聯科技有限公司 before its share reform in 2016), an internet technology development and services company listed on National Equities Exchange and Quotations on 11 January 2017 and delisted on 24 October 2018, since August 2013 and served as its chairman since 11 July 2016, and served as its general manager in charge of its website operation and the overall management from July 2005 to August 2013. Prior to that, from March 2002 to July 2005, Mr. Yao devoted himself to the development of Chinaz.com (站長之家).

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

CHEN Jianyu (陳劍瑜), aged 36, joined the Group on 31 December 2013 and was appointed as Executive Director and President of the Company on 6 March 2014. He is responsible for strategic planning, product research and development, and operations of the Group. Mr. Chen has also been director of Milin Feiyou Technology Co., Ltd. (米林飛遊科技有限公司) since 1 July 2015, director of Beijing Bai Cai Tian Xia Technology Co., Ltd. (previously named as Beijing Feiyu Wuxian Cultural Media Co., Ltd.) since 10 June 2015 and director of Beijing Feiyu Xingkong Technology Co., Ltd. (北京飛魚星空科技有限公司) since 24 August 2015. Mr. Chen is a substantial shareholder of the Company.

Mr. Chen also acted as director of Beijing Feiyu Interactive Cultural Media Co., Ltd. (北京飛娛互動文化傳媒有限公司), an indirect subsidiary of Xiamen Zhangxin Internet, (a company directly held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen and Mr. Bi Lin as at 31 December 2018) since 5 April 2016, director of Guangzhou Popcorn Animation Technology Co., Ltd. (廣州市爆米花動畫科技有限公司) (an animation company) since 26 August 2016, and director of Guangzhou Big Firebird Cultural Media Co., Ltd. (廣州大火鳥文化傳媒有限公司, an animation company) since 14 September 2017.

Mr. Chen has over 17 years of experience in the internet industry. He has developed and are responsible for developing a number of internet software products, including Shengshengkan Software (省省看公益軟件) (a free power management software for promoting environmental protection concept), IQ Browser (IQ瀏覽器) (an internet browser software) and Meitu Viewer (美圖看看) (an image viewing software).

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

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

BI Lin (**畢林**), aged 37, is a founder of the Group and one of the Controlling Shareholders. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 6 March 2014. He is also a member of the Remuneration Committee. Mr. Bi is in charge of the Group's research and development of web games. Mr. Bi also sits on the boards of various companies within the Group, including acting as director of Feiyu Hong Kong since 25 March 2014, director of Xiamen Guanghuan since 16 August 2011, director of Xiamen Youli from 19 September 2011 to 24 February 2012, director of Xiamen Feixin since 1 November 2014, director of Xiamen Guangling since 10 November 2014, director of Xiamen Guangqu since 10 November 2014 and director of Sea Star Entertainment Co., Limited since 31 December 2018.

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

Mr. Bi has over 10 years of experience in the internet industry. He has been the vice chairman of the Xiamen Animation and Game Industry Association (廈門市動漫遊戲產業協會), an industry association established by Xiamen Software Association (廈門軟件行業協會), from March 2014 to March 2018. He is a co-founder of Xiamen Guanghuan and has served as its executive director and general manager since August 2011, primarily responsible for coordinating management discussions and shareholder meetings on business development plans, operating strategies and investment plans. In April 2007, Mr. Bi co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Lin Jiabin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and served as its general manager from its inception to December 2008, primarily responsible for its business development. In July 2004, Mr. Bi founded Xiamen Visual Parameters Design Co., Ltd. (廈門視覺參數設計有限公司), a graphics art design company, and served as its general manager from its inception to May 2006, primarily responsible for its business development.

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

LIN Jiabin (**林加斌**), aged 37, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the operations of the Group's web and mobile games. Mr. Lin Jiabin also acts as a director of Xiamen Youli since 5 February 2012, primarily responsible for its game marketing and operations, director of Xiamen Fei Xiang Yue Investment Management Co., Ltd. (廈門飛享悦投資管理有限公司) since 9 August 2016, director of Hainan Feiyi Internet Technology Company Limited (海南飛翼網路科技有限公司) which is a newly founded subsidiary of the Company since 8 June 2018, and director of Star Winner Asia Corporation which is a newly founded subsidiary of the Company since 2 October 2018.

Mr. Lin Jiabin has more than 14 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has been involved in its shareholder decision making processes since its inception in January 2009. In May 2003, he co-founded China Badminton Online (中羽在線網), a badminton sport internet portal in the PRC, with his brother, Mr. Lin Zhibin, who is also one of our founders, Executive Directors and Vice Presidents. In April 2007, Mr. Lin Jiabin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Zhibin, both of whom are our Executive Directors and Vice Presidents, and Mr. Lin Jiabin served as an engineer in its technology department from April 2007 to January 2009. Prior to that, from December 2005 to November 2007, Mr. Lin Jiabin served as a website designer in Xiamen Wanshang Shengshi Network Co., Ltd. (廈門萬商盛世網絡有限公司).

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

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

LIN Zhibin (**林志斌**), aged 37, is a founder of the Group. He joined the Group on 12 January 2009 and was appointed as Executive Director and Vice President of the Company on 26 August 2014. He is in charge of the Group's product design and management.

Mr. Lin Zhibin also acted as director of Xiamen Xianglian Technology Co., Ltd. (廈門享聯科技股份有限公司, named 廈門享聯科技有限公司 before the share reform in 2016), an internet technology development and services company listed on National Equities Exchange and Quotations on 11 January 2017 and delisted on 24 October 2018, since 26 October 2018 and director of Xiamen Talent Talk Interactive Technology Co., Ltd. (廈門聯遠互動科技有限公司) (a wholly foreign-owned enterprise which was established in the PRC with limited liability) since 24 December 2018.

Mr. Lin Zhibin has more than 14 years of experience in the internet industry. He is a co-founder of Xiamen Guanghuan and has served as its chief designer since its inception in January 2009. Mr. Lin Zhibin co-founded China Badminton Online (中羽在線網), a badminton internet portal in the PRC with Mr. Lin Jiabin, who is also one of our founders, Executive Directors and Vice Presidents. In April 2007, Mr. Lin Zhibin also co-founded Xiamen Creative Times Technology Co., Ltd. (廈門創想時代科技有限公司), an internet technology, electronic commerce, graphic design and exhibition planning services company, with Mr. Bi Lin and Mr. Lin Jiabin, both of whom are our Executive Directors and Vice Presidents, and served as its chief designer from its inception to January 2009, primarily responsible for product design, research and development. Prior to that, from July 2005 to December 2006, Mr. Lin Zhibin served as website designer of Xiamen Advantage Interactive Network Technology Company Limited (廈門優勢互動網絡科技有限公司) (formerly known as Xiamen Youwang Technology Company Limited (廈門優網科技有限公司)), a website designing company.

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

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

Independent Non-executive Directors

LIU Qianli (**劉千里**), aged 43, was appointed as an Independent Non-executive Director on 17 November 2014. She is the chairwoman of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee.

Ms. Liu has over 15 years of experience in investment banking and corporate finance. She has been an independent non-executive director of BAIOO Family Interactive Limited, a children's web game developer listed on the Main Board of the Stock Exchange (Stock Code: 2100), since March 2014. From December 2010 to July 2013, Ms. Liu served as the chief financial officer of Phoenix New Media Limited, a media company listed on the New York Stock Exchange (Stock Symbol: FENG). Prior to that, she served as the chief financial officer of China EDU Corp. from October 2008 to November 2010. From June 2007 to August 2008, she served as the chief financial officer of Main One Information Technology Company Ltd. (銘萬信息技術有限公司), an information technology company. Ms. Liu worked as a vice president at Lehman Brothers investment banking in Hong Kong and as an associate at Lehman Brothers investment banking in New York from July 2003 to June 2007.

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

DIRECTORS AND SENIOR MANAGEMENT

LAI Xiaoling (**賴曉凌**), aged 43, was appointed as an Independent Non-executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Remuneration Committee.

Mr. Lai has over 15 years of experience in investment and business management. He has been a partner of Shunwei Capital (順為資本), a venture capital fund, since January 2018, and is primarily responsible for investment strategy, team formation and management and portfolio management. From June 2013 to December 2017, he was a partner of Innovation Ark (Beijing) Investment Management Consulting Company Limited (創新方舟(北京)投資管理諮詢有限公司), a venture capital fund, primarily responsible for investment strategy, personnel recruitment and training and portfolio management. Between June 2012 and April 2013, he served as a principal for Chengwei Investment Advisory (Shanghai) Co., Ltd. (成為投資諮詢(上海)有限公司), a venture capital fund. From October 2007 to February 2012, he worked as an investment manager and vice president for Morningside TMT (Shanghai) Limited (晨創啟興(上海)投資管理諮詢有限公司), a venture capital fund, primarily responsible for deal sourcing, execution and portfolio management. He has also been an independent non-executive director of Meitu, Inc. (Stock Code: 1357) since 1 January 2019.

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

MA Suen Yee Andrew (**馬宣義**), aged 46, was appointed as an Independent Non-Executive Director on 17 November 2014. He is a member of each of the Audit Committee and the Nomination Committee.

Mr. Ma has over 20 years of experience in investment and business management. He has been with VMS Investment Group (HK) Limited, a member of VMS Group of Companies which is a multi-strategy investment group with businesses covering proprietary investment, asset management, securities broking and corporate finance advisory, serving as a managing director since January 2014 and an executive director from January 2011 to December 2013, primarily responsible for sourcing and executing structured finance and other debt related transactions as well as managing the daily operations of the structured finance team; a senior investment manager from January 2009 to December 2010, primarily responsible for investment deal sourcing and leading the investment team for execution of investment deals; and an analyst from May 2007 to December 2008, primarily responsible for executing and monitoring private equity investment deals. Prior to joining VMS Investment Group, he worked and held various positions in World Family Limited, a distributor and promoter of licensed Disney products, from September 1999 to April 2007, most recently as a senior regional credit & customer relation manager.

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

Biographical Details of the Senior Management

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

XU Yiqing (**許藝清**), aged 41, joined our Group on 10 December 2014, and was appointed as our vice president on the same day. She is responsible for human resources development and administrative and organisational management.

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

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

Yang Guangwen (**楊光文**), aged 38, joined our Group on 27 April 2015 and was appointed as our vice president on 28 April 2015. He is responsible for the setting up our Chengdu R&D center of our overall management of production planning, design and development of the games of the Group's Chengdu Subsidiaries.

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

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

Tu Qin (**涂琴**), aged 37, was appointed as our Chief Operating Officer on 31 October 2017. She is responsible for the operations of the Group's web and mobile games.

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

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

Lui Mei Ka (**雷美嘉**), aged 34, was appointed as Chief Financial Officer, joint company secretary and authorised representative of the Group on 27 September 2018, and is responsible for the Group's overall financial reporting and management.

Ms. Lui has over 10 years of experience in financial management and corporate finance. She acted as the company secretary and financial controller of LT Commercial Real Estate Limited (Stock code: 112), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2013 to 2016 and acted as the company secretary and chief executive officer of GR Properties Limited (Stock code: 108), a company engaged in property development and investment and listed on the Main Board of the Stock Exchange, from 2016 to 2018. Prior to that, Ms. Lui also had about seven years of experience in auditing and accounting at Deloitte Touche Tohmatsu from 2006 to 2013.

Ms. Lui holds a bachelor's degree in business administration from The Chinese University of Hong Kong and is a member of Hong Kong Institute of Certified Public Accountants.

Wei Yulan (**魏郁嵐**), aged 33, jointed our Group in July 2014, and was appointed as a joint company secretary of the Company on 27 September 2018. She is currently the financial controller of the Group.

Ms. Wei also acted as director of Feiyu Asset Management (Dongyang) Company Limited (飛魚資產管理(東陽)有限公司) which is a newly founded subsidiary of the Company since 28 March 2018.

Ms. Wei has over 10 years of experience in financial and accounting. She had one-year experience in risk assessment at Xiamen International Bank from 2013 to 2014. She also had about five years of experience in auditing and accounting at KPMG from 2008 to 2013.

Ms. Wei holds a bachelor's degree in Accounting from Xiamen University and is a member of the Association of Chartered Certified Accountants.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. The principal activity of the Group is the development and operation of mobile games, web games, PC games and HTML5 games, with a strategic focus on mobile games. The activities of its principal subsidiaries are set out in Note 1 to the financial statements.

Details of the activities during the year ended 31 December 2018 as required by Schedule 5 of the Companies Ordinance, including a description of the principal risks and uncertainties facing the Group, an indication of likely future development in the Group's business, and the Group's environmental policies and performance, as well as compliance with relevant laws and regulations which have a significant impact on the Company, are set out under the section headed "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report.

Particulars of important events affecting the Company that have occurred since the end of the financial year 2018 if any, can also be found in the section headed "Management Discussion and Analysis" of this annual report. The outlook of the Company's business is also discussed throughout this annual report including in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. An account of the Company's relationships with its key stakeholders is included in the "Report of Directors" and "Environmental, Social and Governance Report" of this annual report.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2018, and the state of the Company's and the Group's financial affairs as at that date are set out on pages 119 to 199 of this annual report.

FINANCIAL SUMMARY

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

USE OF PROCEEDS FROM IPO

The net proceeds from the Global Offering were approximately HK$585.0 million (equivalent to approximately RMB463.2 million) after deducting the underwriting fees and commission, and related total expenses paid and payable by us in connection with the Listing.

The following table sets forth the use of net proceeds from the Global Offering:

	Net Proceeds from Global Offering			
	Available to utilise		**Utilised (up to 31 December 2018)**	**Unused balance**
	RMB'000	Percentage	RMB'000	RMB'000
Expanding and enhancing game portfolio	185,281	40%	185,281	–
Expanding marketing and promotion activities	92,641	20%	68,678	23,963
Establishing and expanding international operations in selected overseas markets	69,480	15%	40,659	28,821
Potential acquisitions of technologies and complimentary online games or business, partnerships and licensing opportunities	69,480	15%	69,480	–
Supplementing working capital and for other general corporate purposes	46,320	10%	46,320	–
	463,202	100%	410,418	52,784

Note: The figures above are approximate figures.

The unused balance of the net proceeds of approximately RMB52.8 million are currently placed with reputable banks as the Group's cash and cash equivalents.

As at 31 December 2018, the Group had utilised the net proceeds from the Global Offering of RMB410.4 million as detailed above in accordance with the intended use of net proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The unused balance of approximately RMB52.8 million, consisted of (i) approximately RMB24.0 million allocated for use in expanding our marketing and promotional activities, and in particular, for promoting one of our new games, Peace in Chang An (天下長安), a TV-series-IP-related RPG game, which was launched in February 2019; and (ii) approximately RMB28.8 million allocated for use in establishing and expanding international operations in select overseas markets, and in particular, for promoting a new RPG game in the Middle East, which is under testing and is expected to be launched in the first half of 2019 and the budgeted amount is expected to cover the selling & marketing expenses till the end of 2019.

RESERVES

Changes to the reserves of the Group during the year ended 31 December 2018 are set out in the Consolidated Statements of Changes in Equity on page 124 of this annual report. Changes to the reserves of the Company during the year ended 31 December 2018 are set out in Note 37 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves, including the share premium account, available for distribution and calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately RMB260,146,000 (as at 31 December 2017: RMB554,843,000). Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year ended 31 December 2018 are set out in Note 13 to the financial statements.

SHARE CAPITAL AND SHARE INCENTIVE SCHEMES

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

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in Note 1 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The customers of the Group consist of individual game players and licensees of games of the Group and the percentage of the aggregate revenue attributable to the Group's five largest customers accounted for less than 12% of the Group's total revenue for the year ended 31 December 2018. As we have kept a good cooperation with our largest customer, Shenzhen Tencent Computer System Co., Ltd. ("Shenzhen Tencent"), for more than 4 years, approximately 9% of the total revenue for the year was derived from Shenzhen Tencent.

During the year ended 31 December 2018, the percentage of the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 32.4% of the Group's cost of sales, among which the largest supplier accounted for approximately 24.3% of the Group's cost of sales.

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

BANK BORROWINGS

Particulars of bank borrowings of the Group as at 31 December 2018 are set out in Note 24 to the financial statements.

SHARE CAPITAL

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

CHARITABLE DONATIONS

During the year, there was no donation made by the Company (2017: Nil) to not-for-profit organisations.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS

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

Executive Directors
Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
Mr. CHEN Jianyu *(President)*
Mr. BI Lin *(Vice President)*
Mr. LIN Jiabin *(Vice President)*
Mr. LIN Zhibin *(Vice President)*

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

In accordance with article 84(1) of the Articles of Association, Messrs. YAO Jianjun, CHEN Jianyu and Ms. LIU Qianli will retire by rotation at the forthcoming annual general meeting, and being eligible, offer themselves for re-election thereat.

BIOGRAPHY OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 57 to 64 of this annual report.

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

Save as disclosed in this annual report, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2018 interim report up to the date of this annual report.

DIRECTORS' SERVICE AGREEMENTS AND LETTERS OF APPOINTMENT

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

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

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

REMUNERATION OF THE DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of the Directors and senior management are set out in Note 8 and Note 9 to the financial statements in this annual report. The annual remuneration of the Directors and senior management fell within the following bands:

Remuneration band (RMB)	Number of individuals in year 2018
Below 1,000,000	6
1,000,000–2,000,000	6
2,000,001–3,000,000	1
3,000,001–4,000,000	–
4,000,001–5,000,000	–
Over 5,000,000	1

REMUNERATION POLICY

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

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

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

During the year ended 31 December 2018, the Company considered the relationship with employees was well and the turnover rate is acceptable.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors, namely, Ms. LIU Qianli, Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, has confirmed to the Company their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has reviewed the independence of each of the Independent Non-executive Directors and considers that the Independent Non-executive Directors have been independent from the date of their appointment to 31 December 2018.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be and were entered into the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares

Name of Director/ chief executive	Capacity	Number of ordinary shares held (long position)	Approximate percentage of shareholding[7] %
YAO Jianjun	Founder of a Discretionary Trust Interest of Controlled Corporation and Beneficial owner [1 and 2]	489,884,500	31.67
CHEN Jianyu	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 3]	256,739,000	16.60
BI Lin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 4]	127,470,000	8.24
LIN Jiabin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 5]	44,890,500	2.90
LIN Zhibin	Founder of a Discretionary Trust Interest of Controlled Corporation [1 and 6]	44,890,500	2.90

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

2 These interests represented:

(a) 8,485,500 Shares held directly by Mr. Yao; and

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

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

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

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

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

7 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (b) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, the following persons (other than the Directors and chief executives of the Company) had or were deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Long position in Shares

Name of Shareholder	Capacity	Number of Ordinary Shares held (long position)	Approximate percentage of shareholding[6] %
TMF (Cayman) Ltd.[1]	Trustee of the family trusts	1,025,407,955	66.29
YAO Holdings Limited[2]	Beneficial owner	481,399,000	31.12
Jolly Spring International Limited[2]	Interest in a controlled corporation	481,399,000	31.12
Mr. YAO Jianjun[3]	Founder of a discretionary trust Interest in a controlled corporation and Beneficial owner	489,884,500	31.67
Fishchen Holdings Limited[4]	Beneficial owner	256,739,000	16.60
Honour Gate Limited[4]	Interest in a controlled corporation	256,739,000	16.60
Mr. CHEN Jianyu[4]	Founder of a discretionary trust Interest in a controlled corporation	256,739,000	16.60
BILIN Holdings Limited[5]	Beneficial owner	127,470,000	8.24
Rayoon Limited[5]	Interest in a controlled corporation	127,470,000	8.24
Mr. BI Lin[5]	Founder of a discretionary trust Interest in a controlled corporation	127,470,000	8.24

Notes:

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

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

3 These interests represented:

(a) 8,485,500 Shares held directly by Mr. Yao; and

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

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

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

6 The percentage is calculated on the basis of 1,546,943,455 Shares in issue as at 31 December 2018.

Other than as disclosed above, as at 31 December 2018, the Directors have not been notified by any person (other than the Directors or chief executives of the Company) who had interests or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraph headed "Directors' and chief executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or its Associated Corporations" above, at no time during the year ended 31 December 2018 and up to the date of this annual report was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any body corporate, and none of the Directors or any of their spouses or children under the age of 18 was granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save for their respective interests in the Group, none of the Directors was interested in any business which competes or is likely to compete with the businesses of the Group at any time during the year ended 31 December 2018 and up to the date of this annual report.

IMPLEMENTATION OF THE DEED OF NON-COMPETITION

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

The Independent Non-executive Directors have conducted an annual review of the implementation of the deed of non-competition and any decision in relation to new business opportunities referred to the Company during the year ended 31 December 2018. There was no particular situation rendering compliance with and implementation of the deed of non-competition questionable.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor any connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which a Controlling Shareholder of the Company, or any of the Company's subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018 and up to the date of this annual report.

PRE-IPO SHARE OPTION SCHEME

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

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe for an aggregate of 105,570,000 Shares, which represented approximately 6.82% of the Shares in issue as at 31 December 2018, to senior management of the Group and other grantees. As at 31 December 2018, all the options granted pursuant to the Pre-IPO Share Option Scheme have been vested.

The table below sets out details of the outstanding options granted to senior management and other grantees under the Pre-IPO Share Option Scheme and movements during the year ended 31 December 2018:

					Number of Shares				
Name	Date of Grant	Vesting schedule	Option period	Exercise price	Granted on the date of grant	Outstanding as at 1/1/2018	Exercised during the year ended 31/12/2018	Cancelled/ Lapsed during the year ended 31/12/2018	Outstanding as at 31/12/2018
Senior management									
Ms. ZHOU Yandan	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	4,510,000	–	–	–	–
Mr. CHEUNG Man Yu[1]	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	6,430,000	4,822,500	–	–	4,822,500
Mr. DONG Ting	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	7,510,000	–	–	–	–
Ms. XU Yiqing	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	2,250,000	2,250,000	–	–	2,250,000
Mr. LIU Tao	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	1,130,000	–	–	–	–

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Number of Shares				
					Granted on the date of grant	Outstanding as at 1/1/2018	Exercised during the year ended 31/12/2018	Cancelled/ Lapsed during the year ended 31/12/2018	Outstanding as at 31/12/2018
Senior management									
Ms.WEI Yulan	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	360,000	237,000	–	–	237,000
Other Grantees									
Aggregate of 116 other grantees	17/11/2014	25% of options on 31 December 2015, 2016, 2017 and 2018 respectively	5 years from the Listing Date	HK$0.55	83,380,000	42,203,500	(6,066,000)	(5,217,500)(2)	30,920,000
Total					**105,570,000**				**38,229,500**

Notes:

(1) Mr. CHEUNG Man Yu has tendered his resignation as the Chief Financial Officer and company secretary of the Company on 27 September 2018 and was appointed as a senior advisor of the Company on the same date.

(2) 5,217,500 share options granted to other grantees lapsed immediately upon their resignation from the Company during the year ended 31 December 2018.

(3) The weighted average closing price of the Shares immediately before the date on which the options were exercised was HK$0.87.

POST-IPO SHARE OPTION SCHEME

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

Pursuant to the Post-IPO Share Option Scheme, the Company has granted options to subscribe for (i) 3,000,000 Shares to a senior management on 10 June 2015; (ii) 1,000,000 Shares to an eligible participant on 5 July 2016; (iii) 10,160,000 Shares to senior management and other eligible participants on 27 March 2017; (iv) 5,000,000 Shares to a senior management and an eligible participant on 15 May 2017; and (v) 15,000,000 Shares to a senior management on 13 November 2017. As at 31 December 2018, the total number of options granted under the Post-IPO Share Option Scheme was 34,160,000, which represented approximately 2.21% of the Shares in issue as at 31 December 2018. As at 31 December 2018, 14,900,000 options granted under the Post-IPO Share Option Scheme, which represented approximately 0.96% and 0.96% of the Shares in issue as at 31 December 2018 and the date of this annual report respectively, were vested to the named grantees.

The table below sets out details of the outstanding options granted to the grantees under the Post-IPO Share Option Scheme and movements during the year ended 31 December 2018:

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Share Options				
						Granted on the date of grant	Outstanding as at 1/1/2018	Exercised during the year ended 31/12/2018	Cancelled/ Lapsed during the year ended 31/12/2018	Outstanding as at 31/12/2018
Senior management										
Mr. YANG Guangwen	10/6/2015	25% of options on 10 June 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$3.934	HK$3.62	3,000,000[(1)]	3,000,000	–	–	3,000,000
Mr. YANG Guangwen	27/3/2017	50% of options on 30 June 2017 and 25% of options on 30 June 2018 and 2019 respectively	10 years from the date of grant	HK$1.256	HK$1.24	3,000,000[(3)]	3,000,000	–	–	3,000,000
Ms. XU Yiqing	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.256	HK$1.24	3,000,000[(3)]	3,000,000	–	–	3,000,000
Ms.WEI Yulan	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.256	HK$1.24	600,000[(3)]	600,000	–	–	600,000
Mr. CHEUNG Man Yu	15/5/2017	25% of options on 15 May 2018, 2019, 2020 and 2021 respectively	10 years from the date of grant	HK$1.10	HK$1.11	3,000,000[(4)]	3,000,000	–	–	3,000,000
Ms. TU Qin	13/11/2017	1/3 of options on 13 November 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.026	HK$1.00	15,000,000[(5)]	15,000,000	–	–	15,000,000

Name	Date of Grant	Vesting schedule	Option period	Exercise price	Closing price immediately before the date on which the options were granted	Number of Share Options: Granted on the date of grant	Outstanding as at 1/1/2018	Exercised during the year ended 31/12/2018	Cancelled/ Lapsed during the year ended 31/12/2018	Outstanding as at 31/12/2018
Other Grantee										
1 other grantee	5/7/2016	25% of options on 31 December 2016, 2017, 2018 and 2019 respectively	10 years from the date of grant	HK$1.634	HK1.57	1,000,000[2]	1,000,000	–	–	1,000,000
9 other grantees	27/3/2017	25% of options on 31 December 2017, 2018, 2019 and 2020 respectively	10 years from the date of grant	HK$1.256	HK$1.24	3,560,000[3]	3,200,000	–	–	3,200,000
1 other grantee	15/5/2017	25% of options on 15 May 2018, 2019, 2020 and 2021 respectively	10 years from the date of grant	HK$1.10	HK$1.11	2,000,000[4]	2,000,000	–	–	2,000,000
Total						34,160,000				33,800,000

Notes:

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

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

(3) On 27 March 2017, 10,160,000 share options were granted to three senior management and other 9 eligible participants with exercise price of HK$1.256 per Share, which represents the highest of: (i) the closing price of HK$1.23 per Share as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant of the Share Options, i.e. 27 March 2017; (ii) the average of the closing price of HK$1.256 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five (5) business days immediately preceding the date of grant of the Share Options; and (iii) the nominal value of a Share of US$0.0000001.

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

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

Summary of the share option schemes

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

		Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
3.	Maximum number of shares	The total number of Shares subject to the Pre-IPO Share Option Scheme shall not exceed 105,570,000, i.e. 8.80% and 6.82% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	The total number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 150,000,000 Shares which is equivalent to 12.50% and 9.70% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.
		No further option could be granted under the Pre-IPO Share Option Scheme.	The maximum number of Shares that may be issued upon exercise of all outstanding options granted and yet to be granted under the Pre-IPO Share Option Scheme, Post-IPO Share Option Scheme and any other schemes must not in aggregate exceed 30% of the total number of Shares in issue from time to time.
4.	Maximum entitlement of each participant	The respective entitlement of each participant as granted on 17 November 2014	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of offer.
5.	Option period	Options may be exercised at any time or times during the period within which the grantee may exercise the options, unless otherwise specified in his offer document.	The Board may in its absolute discretion specify conditions or performance targets at the time of grant of options which shall be satisfied by the grantee before his options may be exercised.
6.	Exercise price	HK$0.55 per Share	Exercise price shall be the higher of: (1) the official closing price of the Shares as stated on the Stock Exchange's daily quotations sheets on the date of offer of option; (2) average of the official closing prices of the Shares stated on the Stock Exchange's daily quotation sheets for the 5 business days before the date of offer and (3) nominal value of a Share.
7.	Scheme period	It shall be valid and effective from 17 November 2014 to the 5th anniversary of the Listing Date (i.e. 5 December 2019) (both dates inclusive).	It shall be valid and effective from 17 November 2014 to the 10th anniversary of the Listing Date (i.e. 5 December 2024) (both dates inclusive).

PRE-IPO RESTRICTED SHARE UNIT PLAN

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

Pursuant to the Pre-IPO RSU Plan, the maximum number of Shares underlying all grants of RSUs shall not exceed 13,850,000 Shares, equivalent to approximately 0.90% of the Shares of the Company in issue as at 31 December 2018, to the senior management of the Group and other grantees. 13,850,000 RSUs were vested in full to the named grantees on 1 April 2015. As at 31 December 2018, the Company no longer has any RSUs outstanding under the Pre-IPO RSU Plan.

POST-IPO RESTRICTED SHARE UNIT PLAN

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

On 27 March 2017, the Company has conditionally granted an aggregate of 14,000,000 RSUs to certain eligible participants to obtain an aggregate of 14,000,000 new Shares pursuant to the Post-IPO RSU Plan. As at 31 December 2018, 14,000,000 RSUs had been vested in full to the named grantees. As at 31 December 2018, the Company no longer has any RSUs outstanding under the Post-IPO RSU Plan.

As approved by the Shareholders at the annual general meeting held on 28 May 2018, the maximum number of new Shares that may underlie awards of RSUs granted or to be granted by the Directors under the annual mandate of the Post-IPO RSU Plan (excluding RSUs that have been lapsed or been cancelled in accordance with the Post-IPO RSU Plan) is 38,000,000 Shares, which represented approximately 2.46% and 2.46% of the Shares in issue as at 31 December 2018 and the date of this annual report respectively.

RESTRICTED SHARE UNIT PLAN II

The Company has approved and adopted the RSU Plan II by a resolution of the Board on 26 March 2018 and passed an ordinary resolution of the Shareholders at the annual general meeting of the Company held on 28 May 2018. The RSU Plan II is in parallel with the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme and such other share option schemes which may be adopted by the Company pursuant to Chapter 17 of the Listing Rules from time to time, as well as the Pre-IPO RSU Plan and the Post-IPO RSU Plan. The RSU Plan II does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is a discretionary scheme of the Company.

As approved by the Shareholders at the annual general meeting held on 28 May 2018, the maximum number of Shares underlying all grants of RSUs under the annual mandate of the RSU Plan II given to the Directors shall not exceed 45,000,000 Shares, which represented approximately 2.91% and 2.91% of the Shares in issue as at 31 December 2018 and the date of this annual report respectively. No RSU was granted under the RSU Plan II from the date of its adoption up to the date of this annual report.

Summary of the restricted share unit plans

		Pre-IPO RSU Plan	Post-IPO RSU Plan	RSU Plan II
1.	Purpose	To reward the participants for their contribution to the success of the Group and to provide incentives to them to further contribute to the Group, and to attract suitable personnel for further development to the Group.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan
2.	Eligible Participants	(i) Full-time employees or officers (including executive, non-executive and independent non-executive Directors) of the Company; (ii) Full-time employees of any subsidiaries and the PRC Operating Entities; (iii) Suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, have contributed or will contribute to the Group; and (iv) Any other person who, in the absolute discretion of the Board, has contributed or will contribute to the Group.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan

		Pre-IPO RSU Plan	Post-IPO RSU Plan	RSU Plan II
3.	Maximum number of shares	The total number of Shares subject to the Pre-IPO RSU Plan shall not exceed 13,850,000 Shares, i.e. 1.15% and 0.90% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	The total number of Shares subject to the Post-IPO RSU Plan shall not exceed 45,000,000 Shares, i.e. 3.75% and 2.91% of the issued Shares as at 17 November 2014 and the date of this annual report respectively.	No Award shall be granted pursuant to the RSU Plan II if as a result of such grant the aggregate number of Shares (being in a board lot or an integral multiple thereof) (or, where cash is awarded in lieu of Shares, the aggregate number of Shares as are equivalent to the amount of cash so awarded) underlying all grants made pursuant to the RSU Plan II (excluding Awards that have lapsed or been cancelled in accordance with the rules of the RSU Plan II) will exceed 3% of the total issued Shares at the relevant date of Shareholders' approval (i.e. 28 May 2018).
		No further award of RSUs could be granted under the Pre-IPO RSU Plan.	If the limit of the Post-IPO RSU Plan is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.	If the limit of the RSU Plan II is refreshed with prior approval of the Shareholders, the total number of Shares underlying the awards shall not exceed 3% of the number of issued Shares as at the date of approval of the refreshed limit.
4.	Term of the RSU Plan	Valid and effective for a period of 5 years from 17 November 2014.	Same as the Pre-IPO RSU Plan	Valid and effective for a period of 10 years commencing from 28 May 2018.
5.	Grant of Award	The Board may grant an award of RSUs any time during the term of the respective RSU Plan on terms and conditions specified by it.	Same as the Pre-IPO RSU Plan	Same as the Pre-IPO RSU Plan

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

MANAGEMENT CONTRACTS

Other than the service agreements and letters of appointment of the Directors, the Company has not entered into any contract with any individuals, firms or corporate entities to manage or regulate the whole or any substantial part of any business of the Company during the year ended 31 December 2018.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, there were no contract of significance in relation to the Group's business in which the Company, or any of its subsidiaries or fellow subsidiaries or a Controlling Shareholder was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at as 31 December 2018 or at any time during the year ended 31 December 2018.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

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

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

After the Listing, the Company kept implementing its expansion plan in target overseas markets such as Hong Kong, Taiwan, Vietnam, Korea, Thailand and Indonesia. As at 31 December 2018, expenditure amounting to RMB13,341,000 had been incurred in taking steps to satisfy the Qualification Requirement. As at 31 December 2018, the Company had generated revenue from the overseas markets which amounted to RMB3,766,000.

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

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

Particulars of the PRC Operating Entities

Particulars of the PRC Operating Entities as at 31 December 2018 are presented as follows:

Name of the PRC Operating Entities	Type of legal entity/ place of establishment and operation	Registered owners as at 31 December 2018	Business activities
Xiamen Guanghuan	Limited liability company/PRC	Messrs. YAO Jianjun, BI Lin, LIN Zhibin, LIN Jiabin, CAI Wensheng (subsequently changed to Ms. CAI Shuting on 21 February 2019), SUN Zhiyan, CHEN Jianyu and Ms. CHEN Yongchun hold 39.200%, 10.560%, 3.720%, 3.720%, 5.752%, 11.624%, 22.424% and 3.000% equity interest of Xiamen Guanghuan, respectively	Investment holding, game development and distribution (no actual business for the year ended 31 December 2018)
Xiamen Youli	Limited liability company/PRC	100% held by Xiamen Guanghuan	Operation and distribution of webgames, mobile games, HTML5 games and PC games
Kailuo Tianxia	Limited liability company/PRC	100% held by Xiamen Guanghuan	Development and operation of carrot fantasy series mobile casual games
Xiamen Fei Xiang Yue Investment Management Co., Ltd. (“Xiamen Fei Xiang Yue”)	Limited liability company/PRC	100% held by Xiamen Youli	Development of real estate

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

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

Pursuant to the Exclusive Business Cooperation Agreements entered into between Xiamen Feiyou and the PRC Operating Entities, the services provided by Xiamen Feiyou's wholly-owned subsidiaries to the PRC Operating Entities (including provision of technical support and product development services) amounted to an aggregate of approximately RMB5.9 million for the year ended 31 December 2018. The above transactions carried out during the year ended 31 December 2018 have been eliminated in the consolidated financial statements of the Group.

The revenue and net loss of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB22.7 million and RMB79.8 million for the year ended 31 December 2018, respectively. The total assets and total liabilities of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB388.3 million and RMB242.7 million as at 31 December 2018, respectively.

The Contractual Arrangements which were in place during the year ended 31 December 2018 are as follows:

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

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

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

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

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

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

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

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

Apart from the above, no new Contractual Arrangement was entered into, renewed or reproduced among the Group, PRC Contractual Entities, Xiamen Guanghuan and the Relevant Shareholders during the year ended 31 December 2018.

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

In addition to the foreign ownership restrictions, investment activities in the PRC by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment, which was most recently jointly amended by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2017 and became effective on 28 July 2017 (the "Catalogue") and the Special Management Measures (Negative List) for the Access of Foreign Investment (2018) (《外商投資准入特別管理措施（負面清單）(2018年版）》) promulgated by the Ministry of Commerce and the National Development and Reform Commission on 28 June 2018 and became effective on 28 July 2018(the "Negative List"). The Catalogue and Negative List contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign invested industries and prohibited foreign investment industries. According to the Catalogue and the Negative List, the webgame business and mobile game business that the Company currently operates are regarded as value-added telecommunications services (except for e-commerce) and internet cultural business (except for music), and fall within the restricted industry category and the prohibited industry category, respectively.

Reasons for using the Contractual Arrangements

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

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

Risk associated with the Contractual Arrangements

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

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

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

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

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

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

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

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

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

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

Mitigation actions taken by the Company

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

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

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

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

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

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

(vii) Although Xiamen Feiyou was not entitled any preferential income tax treatment during the year ended 31 December 2018, it recorded an accumulated loss which can be carried forward against future taxable income. Besides, Xiamen Feiyou will gradually building up a track record of business operations for the purpose of applying qualifications in order to enjoy the preferential tax treatment.

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

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

Material change in relation to the Contractual Arrangements

There is no material change in the Contractual Arrangements and/or the circumstances under which they were adopted during the year ended 31 December 2018.

Unwinding the Contractual Arrangements

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

However, for the year ended 31 December 2018, none of the Contractual Arrangements have been unwound as none of the restrictions that led to the adoption of the Contractual Arrangements has been removed.

Waiver from the Stock Exchange

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

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

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Change in one of the Registered Shareholders of the PRC Operating Entity

As disclosed in the announcement of the Company dated 21 February 2019, the Company was informed by Mr. Cai Wensheng that he has entered into an equity transfer agreement and the rights and obligations transfer agreement (collectively, the "Agreements") with Ms. Cai Shuting, pursuant to which 5.752% equity interest in Xiamen Guanghuan (representing the entire equity interest in Xiamen Guanghuan held by Mr. Cai) as well as all the rights and obligations of Mr. Cai as stipulated under the Contractual Arrangements among Xiamen Feiyou, Xiamen Guanghuan and the Registered Shareholders, including the following agreements entered into by Mr. Cai and other parties thereto: (a) the Powers of Attorney, (b) the Equity Interest Pledge Agreement, and (c) the Exclusive Option Agreement (collectively, the "Assigned Agreements"), shall be transferred to Ms. Cai subject to the terms and conditions as set out in the Agreements. Since Ms. Cai is not married, the Spouse Undertaking is not applicable. In the event that Ms. Cai gets married in the future, her spouse will be required to enter into the Spouse Undertaking.

The Company has been advised by its PRC legal advisor that following completion of the change in registered shareholders of Xiamen Guanghuan, the registration of pledge of equity interest of Xiamen Guanghuan held by Ms. Cai with competent PRC governmental authorities and the transactions contemplated under the Agreements, all rights and obligations of Ms. Cai under the Assigned Agreements will be enforceable and legally binding as if she was a signing party to the Assigned Agreements. Accordingly, no new Contractual Arrangement has been or will be entered into by the Company in respect of the above.

The Company will continue to use its best endeavours to effectively exercise and maintain control over operations of the PRC Operating Entity, obtain the entire economic benefits and prevent leakage of the assets and values of the PRC Operating Entity to the registered shareholders following completion of the aforesaid equity transfer. In addition, the financial results of the PRC Operating Entity will continue to be consolidated into the financial statements of the Company as if it was a wholly-owned subsidiary of the Company.

The Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the Contractual Arrangements would continue to fall within the scope of the waiver from the requirements of Chapter 14A of the Listing Rules as set out in the IPO Waiver, for so long as the Shares are listed on the Stock Exchange, subject to compliance with the same conditions of the IPO Waiver.

Newly enacted Foreign Investment Law

On 15 March 2019, the National People's Congress of the PRC approved the foreign investment law (the "Foreign Investment Law"), which will come into effect on 1 January 2020 and replace the trio of existing laws regulating foreign investment in the PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations.

The Foreign Investment Law embodies the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. However, since it is relatively new, uncertainties still exist in relation to its interpretation and implementation. For instance, under the Foreign Investment Law, “foreign investment” refers to the investment activities directly or indirectly conducted by foreign individuals, enterprises or other entities in the PRC. Though it does not explicitly classify contractual arrangements as a form of foreign investment, there is no assurance that foreign investment via contractual arrangement would not be interpreted as a type of indirect foreign investment activities under the aforementioned definition of “foreign investment” in the future. In addition, the aforementioned definition of “foreign investment” contains a catch-all provision which includes investments made by foreign investors through means stipulated in laws or administrative regulations or other methods prescribed by the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions promulgated by the Stale Council to provide for contractual arrangements as a form of foreign investment.

Impact of the Foreign Investment Law on VIE

The “variable interest entity” (the “VIE”) structure has been adopted by many fully or partially foreign-owned companies which, through its subsidiaries in the PRC, assumes control over an operating company incorporated in the PRC which holds the necessary licenses and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in the PRC. It will be uncertain whether the Contractual Arrangements will be deemed to be in violation of the market access requirements for foreign investment under the PRC laws and regulations.

In addition, the Foreign Investment Law further specifies that foreign investments shall be conducted in line with the negative list issued by or approved to be issued by the State Council. If a foreign invested enterprise or a foreign invested entity (the “FIE”) proposes to conduct business in an industry subject to foreign investment “restrictions” in the “negative list”, the FIE must meet certain conditions under the “negative list” before being established. An FIE shall not conduct or engage in business in an industry subject to foreign investment “prohibitions” in the “negative list,”. It is uncertain whether the businesses operated by the PRC Operating Entities from time to time will be or continue to be subject to the foreign investment restrictions or prohibitions under the “negative list” to be issued in future.

Furthermore, if future laws, administrative regulations or provisions prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, there will be substantial uncertainties as to whether such actions can be completed by the Group in a timely manner, or at all. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance requirements could materially and adversely affect the current corporate structure and business operations of the Group, as well as the ability of the Group to be or continue to be engaged in businesses subject to the foreign investment restrictions or prohibitions.

Potential Risks to the Group

The Contractual Arrangements, in the worst case scenario, may be regarded as invalid and illegal. As a result, the Group may be required to dispose of the business under the Contractual Arrangements and will lose rights to receive the economic benefits from the PRC Operating Entities, such that the financial results of the PRC Operating Entities would no longer be consolidated into the Company's financial results and the Company will have to de-recognise assets and liabilities of the PRC Operating Entities according to the relevant accounting standards. If the Company no longer has a sustainable business after such disposal, the Stock Exchange may delist the Company.

Measures adopted by the Company to mitigate against any potential risk arising from the Foreign Investment Law

The Foreign Investment Law was approved by the National People's Congress of the PRC on 15 March 2019 and will come into effect on 1 January 2020. As aforementioned, there are uncertainties with respect to the interpretation and implementation of the newly enacted Foreign Investment Law, the Board will closely monitor the development of the Foreign Investment Law with the help of the Company's PRC legal adviser, including but not limited to any new negative list issued by or approved to be issued by the State Council, or any future laws, administrative regulations or provisions prescribed by relevant governmental authorities. The Company will then discuss with its PRC legal adviser in order to assess any possible impact arising from the development of the Foreign Investment Law on the Contractual Arrangements and the business operation of the Group.

In case there would be material and adverse effect on the Group arising from the Foreign Investment Law, the Company will disclose, as soon as possible: (i) updates of material development to the Foreign Investment Law as and when it occurs; and (ii) specific measures taken by the Company to fully comply with the development to the Foreign Investment Law supported by a PRC legal opinion and any material impact of the development of the Foreign Investment Law on the Company's operations and financial position.

Licence Agreement

On 29 March 2016, Xiamen Guangyu (currently known as Xiamen Guangling), Kailuo Tianxia and Xiamen Youli, all of which are indirect wholly-owned subsidiaries of the Company (collectively, the "Licensors") and Xiamen Plump Fish Cultural Media Co., Ltd., as the licensee (the "Licensee"), entered into a licence agreement (the "Licence Agreement") pursuant to which the Licensors have agreed to grant to the Licensee, among other things, an exclusive non-assignable right to use the Licensed Property in designing, producing and distributing the cartoons, films, TV dramas, online dramas and other visual products (the "Films") for a period commencing from 29 March 2016 to 31 December 2018 (both dates inclusive). The Licensed Property refers to the copyright and legal rights owned by the Licensors, which own trademarks, images, characters, characteristics, roles, texts, pictures, music, geographical characteristics, visual arts and technical information in relation to Shen Xian Dao (神仙道), Carrot Fantasy (保衛蘿蔔), and Jiong Xi You (囧西遊), respectively. In consideration of an exclusive non-assignable right granted by the Licensors to the Licensee pursuant to the Licence Agreement, the Licensee shall pay the Licensors the royalty in the amount equal to 8% of the sales revenue generated by the Films. As the Licensee is a direct wholly-owned subsidiary of Xiamen Zhangxin Internet, of which each of Mr. Yao Jianjun and Mr. Chen Jianyu, Executive Directors, directly held 50% equity interests as at the date of the Licence Agreement (29 March 2016) and held as to 18.4966%, 30.7177% and 5.7857% equity interests by each of Mr. Yao, Mr. Chen and Mr. Bi Lin as at 31 December 2018, the Licensee is an associate of Mr. Yao, Mr. Chen and Mr. Bi as at 31 December 2018 and hence, a connected person of the Company. Accordingly, the transactions contemplated under the Licence Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Please refer to the Company's announcement dated 29 March 2016 for details.

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

During the year ended 31 December 2018, there was no transaction incurred under the Licence Agreement and the Licence Agreement has expired on 31 December 2018.

Annual Review

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

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

1. the transactions carried out during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the Contractual Arrangements and have been operated so that the revenue generated by the PRC Contractual Entities has been mainly retained by the Group;

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

3. there was no new contract entered into, renewed or reproduced between the Group and the PRC Contractual Entities during the year ended 31 December 2018.

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

A copy of the auditors' letter on the continuing connected transactions of the Group for the year ended 31 December 2018 has been provided by the Company to the Stock Exchange.

RELATED PARTY TRANSACTIONS

The related party transactions which were undertaken in 2018 are set out in Note 32 to the financial statements in this annual report (other than the above-mentioned). For those related party transactions which constituted connected transactions or continuing connected transactions (as the case may be) (other than those described in the section above headed “Report of Directors – Non-exempt Continuing Connected Transactions”) of the Company under the Listing Rules, the Company has complied with the disclosure requirements in Chapter 14A of the Listing Rules, where applicable.

None of the related party transactions as disclosed in Note 32 to the financial statements in the annual report constituted connected transactions under the Listing Rules, except for the transaction with Beijing Feiyu Interactive Cultural Media Co., Ltd. (which is controlled by the Directors) and the transaction with Mr. CHEN Jianyu (being an Executive Director and a substantial Shareholder) which are fully exempt from the connected transaction requirements under Rule 14A.76 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for securities transactions by the Directors. Having made specific enquiries with all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 2018.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of noncompliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2018.

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

During the year ended 31 December 2018, the Company repurchased a total of 9,642,000 Shares on the Stock Exchange at an aggregate price paid of HK$8,893,529.58 before expenses pursuant to the share repurchase mandate approved by the Shareholders at the annual general meeting of the Company held on 26 May 2017.

Details of the share repurchase are as follows:

Month of repurchase	Number of shares repurchased	Price paid per Share Highest price paid HK$	Price paid per Share Lowest price paid HK$	Aggregate price paid HK$
January 2018	9,642,000	0.95	0.88	8,893,529.58
Total	9,642,000			8,893,529.58

All the 9,642,000 repurchased Shares have been cancelled prior to 6 February 2018 and the issued share capital of the Company has been reduced by the nominal value of the repurchased Shares. The premium paid on repurchase was charged against the share premium of the Company. The repurchases were effected by the Board with a view to benefiting the Shareholders as a whole by enhancing the earnings per share of the Company.

Save as disclosed above, the Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available and to the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has always maintained sufficient public float as required under the Listing Rules for the year ended 31 December 2018 and up to the date of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Disposal of 4.34% Equity Interest in Tap Tap

On 31 January 2019, Xiamen Youli as seller entered into the share purchase agreements with XD and Xiamen Geecap respectively, pursuant to which Xiamen Youli agreed to dispose of, and XD and Xiamen Geecap agreed to acquire, an aggregate of 4.34% equity interest in Ewan (representing the entire equity interest held by Xiamen Youli in Ewan) at a total cash consideration of RMB108,500,000. Upon completion, Xiamen Youli will no longer hold any interest in Ewan. Such disposal provides an opportunity for the Group to realise the return on its investment in Ewan to strengthen the Group's liquidity to further enhance and develop the core businesses of the Group.

Termination of Exclusive Licensing Agreement with Meitu Networks

Xiamen Youli and Meitu Networks entered into an exclusive licensing agreement in relation to, among others, the operation, development and management of the game businesses for Meitu Networks on 21 March 2018. Considering the Group's future strategic direction and current market environment of game distribution platform, after due and careful consideration and through negotiations on a friendly basis, on 21 February 2019, Xiamen Youli and Meitu Networks mutually agreed not to continue with the cooperation and entered into a termination agreement to terminate the cooperation contemplated under the exclusive licensing agreement.

BOARD COMMITTEES

The Company established each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 November 2014. For further details, please refer to pages 103 to 107 of this annual report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. In respect of the year ended 31 December 2018, save as disclosed in this annual report, the Company has complied with all material code provisions in the CG Code.

FINAL DIVIDEND

The Board did not declare a final dividend for the year ended 31 December 2018 (the year ended 31 December 2017: Nil)

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019, both days inclusive, during which period no transfer of Shares will be effected, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM to be held on Monday, 27 May 2019. All transfers of Shares accompanied by the relevant Share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 21 May 2019.

AUDITORS

The Company has appointed Ernst & Young as the auditors of the Company for the year ended 31 December 2018. The consolidated financial statements of the Group for the year ended 31 December 2018 have been audited by Ernst & Young.

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

On behalf of the Board
YAO Jianjun
Chairman

Hong Kong, 29 March 2019

CORPORATE GOVERNANCE REPORT

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

The Company has applied the principles as set out in the CG Code as its own code of corporate governance and confirms that it has complied with all code provisions under the CG Code during the year ended 31 December 2018, save for certain deviations which are explained in the relevant paragraphs in this corporate governance report.

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

The following sets forth a detailed discussion of the corporate governance practices adopted and complied with by the Company during the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Having made specific enquiry with all Directors, the Company confirmed that all members of the Board complied with the Model Code during the year ended 31 December 2018.

Senior management, executives and staff who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non – compliance with the Model Code by such employees was noted by the Company during the year ended 31 December 2018.

THE BOARD

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

Executive Directors	Mr. YAO Jianjun *(Chairman and Chief Executive Director)*
	Mr. CHEN Jianyu
	Mr. BI Lin
	Mr. LIN Jiabin
	Mr. LIN Zhibin
Independent Non-executive Directors	Ms. LIU Qianli
	Mr. LAI Xiaoling
	Mr. MA Suen Yee Andrew

The existing Board composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's business model and contribute to an effective Board. All Directors, including the Independent Non-executive Directors, have contributed a wide range of valuable business experience, knowledge and professionalism to the Board, ensuring its effective and efficient operations. The Independent Non-executive Directors contribute to the Group and its strategies and policies by providing independent, constructive and informed comments.

Biographical details of the Directors are set out on pages 57 to 62 of this annual report. Save as disclosed in this annual report, and to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among members of the Board.

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

During the year ended 31 December 2018, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and the Nomination Committee has reviewed the independence of each Independent Non-executive Director. The Company considers that all of the Independent Non-executive Directors to be independent in accordance with guidelines set out in the Listing Rules as at the date of this annual report.

Each of the Independent Non-executive Director has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change of circumstances which may affect their independence.

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

ROLES AND RESPONSIBILITIES OF THE BOARD

Management functions and Board delegation

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

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

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

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

Supply of and Access to Information
The Directors also have full and timely access to all relevant information, and advice and services of the company secretary to guarantee full compliance with Board procedures and the relevant laws and regulations.

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

Corporate Governance Functions
The Board is responsible for the performance of functions of corporate governance set out in code provision D.3.1 of the CG Code, and the Board reviewed and confirmed it has performed such functions during the year ended 31 December 2018.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

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

BOARD MEETINGS

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

The Board has held 8 Board meetings during the year ended 31 December 2018 for discussing the Group's affairs, reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings (whether in person or by means of electronic communication) held during the year ended 31 December 2018 are set out below:

Name of the Directors	Attendance/ Number of Board Meeting
Executive Directors:	
Mr. YAO Jianjun	8/8
Mr. CHEN Jianyu	8/8
Mr. BI Lin	8/8
Mr. LIN Jiabin	8/8
Mr. LIN Zhibin	8/8
Independent Non-executive Directors:	
Ms. LIU Qianli	8/8
Mr. LAI Xiaoling	8/8
Mr. MA Suen Yee Andrew	8/8

Pursuant to code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive Directors without the presence of the executive directors. The Chairman met with the Independent Non-executive Directors (without presence of the other Executive Directors) once during the year ended 31 December 2018 for discussing the investment and strategic planning of the Group.

Practices and Conduct of Meetings

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

For regular Board and Board committee meetings, all agendas, board papers, together with all applicable, complete and reliable information are sent to all the Directors at least 3 days before each meeting to keep the Directors apprised of the latest developments and financial position of the Group and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management of the Company whenever necessary. Queries raised by the Directors should receive prompt and full response wherever possible.

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

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

The Articles contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their close associate(s) has/have a material interest. This provision has been complied with during the year ended 31 December 2018.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in Note 8 to the financial statements of this annual report.

SHAREHOLDING INTEREST OF DIRECTORS AND SENIOR MANAGEMENT

For details of the shareholding interest and short positions of the Directors and senior management of the Group, please refer to pages 70 to 71 of this annual report.

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

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

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

All Directors participated in professional development training courses arranged by the Group's legal adviser relating to roles, functions and duties of a listed company director, continuing and disclosure obligations of listed companies and its directors, and amendments to the Listing Rules and SFO in relation to inside information. A summary of training received by the Directors for the year ended 31 December 2018 according to the records provided by the Directors is as follows:

Name of the Directors	**Attending relevant training sessions**
Executive Directors:	
Mr. YAO Jianjun	✓
Mr. CHEN Jianyu	✓
Mr. BI Lin	✓
Mr. LIN Jiabin	✓
Mr. LIN Zhibin	✓
Independent Non-executive Directors:	
Ms. LIU Qianli	✓
Mr. LAI Xiaoling	✓
Mr. MA Suen Yee Andrew	✓

BOARD COMMITTEES

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

Nomination Committee

The Board established the Nomination Committee on 17 November 2014 with written terms of reference in accordance with code provision A.5.2 of the CG Code. As at 31 December 2018 and the date of this annual report, the Nomination Committee comprised three members, the majority of whom were Independent Non-executive Directors. Mr. YAO Jianjun, who is the Chairman of the Board and Executive Director, served as the chairman of the Nomination Committee, and Ms. LIU Qianli and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as the committee members.

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

Board Diversity

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

During the year ended 31 December 2018, the Nomination Committee reviewed the structure, size and composition of the Board, reviewed the Board Diversity Policy and its implementation, assessed the independence of the Independent Non-executive Directors, and made the recommendations to the Board on the re-appointment of retiring Directors.

The attendance records of the Nomination Committee meeting held during the year ended 31 December 2018 are set out below:

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

Nomination Policy

The Board has adopted a nomination policy (the "Nomination Policy") on 29 December 2018 to assist the Board in identifying suitably qualified candidates and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors as well as providing the selection criteria and procedures adopted for making recommendations by the Nomination Committee. A summary of the selection criteria and procedures for recommendation and selection of candidates for directorship is disclosed below.

Selection Criteria

In assessing the suitability of a proposed candidate, the Nomination Committee shall consider the following factors:

- reputation for integrity;
- accomplishment, experience and reputation of the relevant business of the Group;
- time to be devoted and attention to the affairs of the Company;
- diversity of the Board in all aspects, including but not limited to gender, age, cultural background, educational background, skills, knowledge and professional experience;
- compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an Independent Non-executive Director; and
- any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The appointment of any proposed candidate(s) to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Articles and other applicable rules and regulations.

Nomination Procedures

To nominate a candidate for the appointment and/or re-appointment of Directors, the procedures are as follows:

- The secretary of the Nomination Committee shall convene a meeting, and invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members;
- Proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a director of the Company and to the public disclosure of their personal data on any documents or relevant website in connection with their nomination or otherwise pursuant to applicable rules and regulatory requirements; recommendation will then be made by the Nomination Committee upon review of the relevant documents for Board's consideration and approval. The Nomination Committee may request candidates to provide additional information and documents, if considered necessary;
- In the context of re-appointment of any existing member(s) of the Board, the Nomination Committee shall make recommendations to the Board for its consideration and recommendation, for the candidates to stand for re-election at a general meeting;
- Please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website, for procedures for shareholders' nomination of any candidate for election as a Director; and
- The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy.

Remuneration Committee

The Board established the Remuneration Committee on 17 November 2014 with written terms of reference in compliance with code provision B.1.2 of the CG Code. As at 31 December 2018 and the date of this annual report, the Remuneration Committee comprised three members, the majority of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director, served as chairwoman of the Remuneration Committee, Mr. BI Lin, an Executive Director and Mr. LAI Xiaoling, an Independent Non-executive Directors, served as the committee members.

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

The Remuneration Committee held one meeting during the year ended 31 December 2018 to review, inter alias, (i) the remuneration policy and structure; (ii) the annual remuneration packages of the Executive Directors; and (iii) other matters related to the foregoing.

The attendance records of the Remuneration Committee meetings held during the year ended 31 December 2018 are set out below:

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

Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in Note 8 to the financial statements of this annual report.

Audit Committee

The Board established the Audit Committee on 17 November 2014 with written terms of reference in accordance with code provision C.3.3 of the CG Code. The written terms of reference were updated on 28 December 2015 and 27 December 2018 respectively in light of the applicable amendments to the CG Code. As at 31 December 2018 and the date of this annual report, the Audit Committee comprised three members, all of whom are Independent Non-executive Directors. Ms. LIU Qianli, an Independent Non-executive Director with appropriate professional qualifications required under Rule 3.10(2) and 3.21 of the Listing Rules, served as chairwoman of the Audit Committee, and Mr. LAI Xiaoling and Mr. MA Suen Yee Andrew, both of whom are Independent Non-executive Directors, served as committee members. The Board considered that the members of the Audit Committee possess sufficient professional knowledge and experience relating to accounting and financial management for discharge of their responsibilities.

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

The Audit Committee held three meetings during the year ended 31 December 2018 to review the annual results of the Group for the year ended 31 December 2017 and the interim results of the Group for the six months ended 30 June 2018 as well as the reports prepared by the external auditors relating to 2018 annual audit and interim review plans and accounting and internal control issues and major findings in the course of audit/review. In addition, it reviewed the Company’s compliance with the CG Code and the regulatory and statutory requirements, and the disclosure in this Corporate Governance Report. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

The attendance records of the Audit Committee meetings held during the year ended 31 December 2018 are set out below:

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

The Group's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee on 29 March 2019, and it considered that the said annual results are prepared in accordance with applicable accounting standards, rules and regulations, and appropriate disclosures have been duly made.

REMUNERATION OF EXTERNAL AUDITORS

The statement of the external auditors of the Company, Ernst & Young, about their reporting responsibilities on the financial statements is set out in the independent auditors' report on page 114.

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

During the year ended 31 December 2018, the total fee paid/payable to Ernst & Young in respect of audit services is set out below:

Items of auditors' service	Amount (RMB'000)
Audit service	2,100
Total	2,100

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018 which give a true and fair view of the financial position of the Group as well as the operating results and cash flows during that year.

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

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

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

During the year ended 31 December 2018, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

In respect of the year ended 31 December 2018, the Board considered the risk management and internal control system effective and adequate. No significant areas of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group have been identified. During the review, the Board also considered the resources, qualification/experience of staff of the Group's accounting and financial reporting function, and their training and budget to be adequate.

Process used to identify, evaluate and manage significant risks

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

Main Features of Risk Management and Internal Control System

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

The Board

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

The Audit Committee

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

The management

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

The Internal Audit Function

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

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

Supervision and Self-Assessment of the Internal Control Systems

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

For handling and dissemination of Inside Information

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

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

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

SHAREHOLDERS' RIGHTS

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

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

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

With regard to nomination of any candidate for election as a Director, please refer to the "Procedures for Shareholders to Propose a Person for Election as a Director of the Company", which is available on the Company's website.

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

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

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

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

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

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

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

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

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

GENERAL MEETINGS

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

During the year ended 31 December 2018, one annual general meeting was held. The attendance record of each Director at the annual general meeting is set out below:

Name of the Directors	**Attendance/ Number of annual general meeting**
Executive Directors:	
Mr. YAO Jianjun	1/1
Mr. CHEN Jianyu	1/1
Mr. BI Lin	1/1
Mr. LIN Jiabin	1/1
Mr. LIN Zhibin	1/1
Independent non-executive Directors:	
Ms. LIU Qianli	0/1
Mr. LAI Xiaoling	0/1
Mr. MA Suen Yee Andrew	0/1
Company Secretary	
Mr. Cheung Man Yu *(resigned with effect from 27 September 2018)*	1/1

The forthcoming AGM will be held on Monday, 27 May 2019. The notice of the annual general meeting will be sent to the Shareholders at least 20 clear business days before the AGM.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, the Company has not made any changes to its Memorandum and Articles of Association.

DIVIDEND POLICY

The Board has adopted a dividend policy ("Dividend Policy") on 29 December 2018 with an aim to provide the Shareholders with stable and sustainable returns. In proposing any dividend payout, the Board shall take into account the Group's actual and expected performance and financial conditions, retained earnings and distributable reserves, liquidity and cash flow, expected requirements for working capital and future investment, restrictions on payment of dividends that may be imposed on the Company by any of its financing arrangements and other factors that the Board deems appropriate. There can be no assurance by the Board that a dividend will be proposed or declared in any particular amount for any given period and the declaration or distribution of the dividend by the Company is also subject to compliance with applicable laws and regulations. The Board shall continually review this policy from time to time.

COMPANY SECRETARY

Following the resignation of Mr. CHEUNG Man Yu on 27 September 2018, Ms. LUI Mei Ka, the newly appointed Chief Financial Officer and Ms. WEI Yulan, the financial controller who have day-to-day knowledge of the Group's affairs have been appointed as joint company secretaries of the Company. All Directors have access to the advice and services of the joint company secretaries to ensure that the Board procedures, and all applicable law, rules and regulations are followed. Biographical details of the joint company secretaries are set out on page 64 of this annual report.

Each of the joint company secretaries has complied with requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for not less than 15 hours during the year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Feiyu Technology International Company Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 119 to 199, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of carrying amount of goodwill	
As at 31 December 2018, the Group reported RMB20,121,000 in goodwill as a result of previous acquisitions. In the current year, an aggregate impairment charge of RMB3,926,000 was recognised in the consolidated statement of profit or loss, mainly in respect of the Super Phantom Cat cash-generating unit and Shenzhen Zhangxin cash-generating unit due to the underperformance in revenue generating activities. On an annual basis, the Group assesses the valuation of goodwill which relies on key assumptions and judgements made by management concerning the estimated value of future cash flows, associated discount rates, and growth rates based on their view of future business prospects. The Group's disclosures about goodwill are included in Note 15 to the financial statements.	Our audit procedures included, among others, evaluating the forecast by comparing the forecasts with the historic performance of the respective CGUs and other supporting information. We have also involved our internal valuation experts to assist us in evaluating the assumptions and methodologies used by management, in particular, discount rates and long term growth rates. We also assessed the adequacy of the Group's disclosures in the financial statements of the assumptions to which the outcome of the impairment test is most sensitive.
Fair value measurement of financial assets	
As at 31 December 2018, the Group had investments in financial assets such as certain equity investments designated at fair value through other comprehensive income with the total amount of RMB17,829,000. These investments are classified as level 3 in the fair value hierarchy, as their fair values are measured using valuation techniques with significant unobservable inputs. Fair value measurement can be a subjective area and more so for areas of the market reliant on model based valuation or with weak liquidity and price discovery. The selection of valuation techniques for these financial assets can be subjective and is so for assumptions. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. The fair value of these investments, valuation techniques and significant unobservable inputs used in the measurement of the fair value of these investments are included in Note 34 to the financial statements.	For certain equity investments designated at fair value through other comprehensive income, we involved our internal valuation experts to assist us in evaluating the valuation techniques against industry practice and valuation guidelines, compare assumptions used against industry benchmarks, investigate significant differences and perform our own independent valuations where applicable. We also assessed the adequacy of the Group's disclosures in the financial statements of the fair value hierarchy of the investments.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**83,250**	131,697
Cost of sales		**(59,479)**	(38,843)
Gross profit		**23,771**	92,854
Other income and gains	5	**33,488**	29,865
Selling and distribution expenses		**(10,629)**	(40,099)
Administrative expenses		**(60,207)**	(64,327)
Research and development costs		**(93,633)**	(93,701)
Finance costs	7	**(1,904)**	(1,333)
Other expenses		**(5,179)**	(312,676)
Share of losses of associates	17	**(2,899)**	(218)
LOSS BEFORE TAX	6	**(117,192)**	(389,635)
Income tax (expense)/credit	10	**(2,268)**	855
LOSS FOR THE YEAR		**(119,460)**	(388,780)
Attributable to:			
Owners of the parent		**(107,508)**	(377,455)
Non-controlling interests		**(11,952)**	(11,325)
		(119,460)	(388,780)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
– Basic and diluted		**RMB(0.07)**	RMB(0.24)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

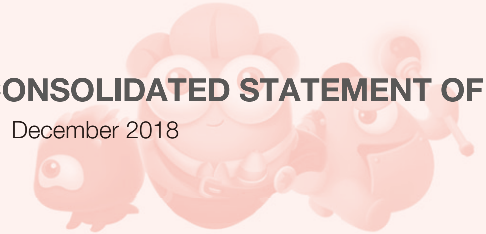
Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
LOSS FOR THE YEAR		**(119,460)**	(388,780)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**–**	11,372
Reclassification adjustments for gains included in the consolidated statement of profit or loss	5	**–**	(3,233)
Debt investments at fair value through other comprehensive income:			
Changes in fair value		**(1,690)**	–
Reclassification adjustments for loss included in the consolidated statement of profit or loss		**295**	–
Exchange differences on translation of financial statements		**12,015**	(14,985)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**10,620**	(6,846)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**30,105**	–
Income tax effect		**(5,238)**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**24,867**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**35,487**	(6,846)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(83,973)**	(395,626)
Attributable to:			
Owners of the parent		**(71,685)**	(384,431)
Non-controlling interests		**(12,288)**	(11,195)
		(83,973)	(395,626)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	60,680	14,097
Prepaid land lease payments	14	100,797	103,552
Goodwill	15	20,121	24,047
Other intangible assets	16	3,642	1,801
Investments in associates	17	36,067	9,229
Prepayments, other receivables and other assets	20	17,476	9,236
Equity investments designated at fair value through other comprehensive income	21	28,081	–
Available-for-sale investments	21	–	370,031
Debt investments at fair value through profit or loss	21	196,194	–
Debt investments at fair value through other comprehensive income	21	25,076	–
Deferred tax assets	18	4,145	1,284
Total non-current assets		492,279	533,277
CURRENT ASSETS			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	19	21,980	25,501
Prepayments, other receivables and other assets	20	41,777	45,642
Equity investments designated at fair value through other comprehensive income	21	108,500	–
Other current assets		7,154	2,432
Cash and cash equivalents	22	104,922	155,397
Total current assets		284,333	228,972
CURRENT LIABILITIES			
Other payables and accruals	23	85,168	55,454
Interest-bearing bank borrowing	24	83,694	53,504
Tax payable		2,664	1,825
Contract liabilities	25	5,072	–
Deferred revenue		54	10,838
Total current liabilities		176,652	121,621
NET CURRENT ASSETS		107,681	107,351
TOTAL ASSETS LESS CURRENT LIABILITIES		599,960	640,628



CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	9,340	–
Deferred tax liabilities	18	8,601	–
Contract liabilities	25	4,045	–
Deferred revenue		–	4,940
Total non-current liabilities		21,986	4,940
Net assets		577,974	635,688
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	1	1
Share premium	26	498,453	490,934
Treasury shares		–	(2,906)
Reserves	28	88,053	150,023
		586,507	638,052
Non-controlling interests		(8,533)	(2,364)
Total equity		577,974	635,688

Yao Jianjun
Director

Chen Jianyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2018

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Statutory reserves RMB'000	Equity-settled shares-based payment reserve RMB'000	Other reserves RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Treasury share RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017	1	490,934	13,940*	150,155*	352,760*	(6,779)*	20,559*	(380,612)*	(2,906)	638,052	(2,364)	635,688
Effect of adoption of IFRS 9	-	-	-	-	-	19,465	-	(2,478)	-	16,987	-	16,987
At 1 January 2018	1	490,934	13,940	150,155	352,760	12,686	20,559	(383,090)	(2,906)	655,039	(2,364)	652,675
Loss for the year	-	-	-	-	-	-	-	(107,508)	-	(107,508)	(11,952)	(119,460)
Other comprehensive income for the year:												
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax	-	-	-	-	-	24,867	-	-	-	24,867	-	24,867
Changes in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	(1,395)	-	-	-	(1,395)	-	(1,395)
Exchange differences on translation of financial statements	-	-	-	-	-	-	12,351	-	-	12,351	(336)	12,015
Total comprehensive loss for the year	-	-	-	-	-	23,472	12,351	(107,508)	-	(71,685)	(12,288)	(83,973)
Distribution to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	2,450	2,450
Acquisition of non-controlling interest	-	-	-	-	(3,671)	-	-	-	-	(3,671)	3,669	(2)
Transfer of revaluation reserve upon the disposal of equity investments at fair value through other comprehensive income	-	-	-	-	-	260	-	(260)	-	-	-	-
Repurchase of shares	-	-	-	-	-	-	-	-	(7,060)	(7,060)	-	(7,060)
Cancellation of shares	-	(9,966)	-	-	-	-	-	-	9,966	-	-	-
Equity-settled share-based payment expenses	-	-	-	10,961	-	-	-	-	-	10,961	-	10,961
Exercise of share options and RSU	-	17,485	-	(14,562)	-	-	-	-	-	2,923	-	2,923
Appropriation to statutory reserves	-	-	2,055	-	-	-	-	(2,055)	-	-	-	-
At 31 December 2018	1	498,453	15,995*	146,554*	349,089*	36,418*	32,910*	(492,913)*	-	586,507	(8,533)	577,974

* These reserve accounts comprise the consolidated reserves of RMB88,053,000 (2017: RMB150,023,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(117,192)**	(389,635)
Adjustments for:			
Finance costs	7	**1,904**	1,333
Interest income	5	**(8,275)**	(11,230)
Dividend income from equity investments designated at fair value through other comprehensive income	5	**(626)**	–
Dividend income from available-for-sale investments	5	**–**	(600)
Other compensation expenses	6	**2,450**	2,448
Depreciation of property, plant and equipment	13	**5,026**	6,106
Amortisation of intangible assets	16	**489**	3,830
Recognition of prepaid land lease payments	6	**–**	2,525
Loss/(gain) on disposal of items of property, plant and equipment	6	**11**	(211)
Loss on disposal of a subsidiary	6	**–**	5,808
Fair value loss on remeasurement of existing interests upon business combination	6	**–**	665
Equity-settled share-based payment expenses	6	**10,961**	25,685
Fair value loss/(gain), net:			
Debt investments at fair value through other comprehensive income (transfer from equity on disposal)		**295**	–
Debt investments at fair value through profit or loss		**(11,167)**	–
Available-for-sale investments (transfer from equity on disposal)	5	**–**	(3,233)
Loss on fair value change of contingent consideration	6	**–**	495
Share of losses of associates	17	**2,899**	218
Impairment of property, plant and equipment	13	**–**	995
Impairment of other receivable	6	**–**	3,000
Impairment of goodwill	15	**3,926**	300,477
		(109,299)	(51,324)
Decrease in accounts receivable and receivables due from third-party game distribution platforms and payment channels		**3,521**	29,099
Increase in prepayments, other receivables and other assets		**(4,364)**	(16,979)
Increase/(decrease) in other payables and accruals		**1,268**	(25,394)
Decrease in restricted cash		**–**	680
Increase in other current assets		**(4,722)**	(2,432)
Decrease in deferred revenue/contract liabilities		**(6,607)**	(6,574)
Cash used in operations		**(120,203)**	(72,924)
Income tax paid		**(927)**	(2,895)
Net cash flows used in operating activities		**(121,130)**	(75,819)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Net cash flows used in operating activities		(121,130)	(75,819)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		8,268	20,834
Dividend received from equity investments designated at fair value through other comprehensive income		626	–
Dividend income from available-for-sale investments		–	600
Purchases of items of property, plant and equipment		(31,759)	(9,094)
Proceeds from disposal of items of property, plant and equipment		33	1,749
Purchase of debt investments at fair value through profit or loss		(132,293)	–
Purchase of available-for-sale investments		–	(399,053)
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		209,631	–
Proceeds from disposal of available-for-sale investments		–	422,868
Additions to other intangible assets		(2,330)	–
Deposit transferred to an account in a domestic securities company		–	(611)
Acquisition of a subsidiary		–	1,005
Disposal of a subsidiary		–	(18)
Purchase of a shareholding in associates		(20,000)	–
Dividends received from an associate		200	–
Net cash flows from investing activities		32,376	38,280
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		2,919	5,674
Addition of bank loans		3,653,100	677,153
Repayment of bank loans		(3,616,149)	(676,072)
Repurchase of shares		(7,060)	(47,205)
Interest paid		(599)	(156)
Net cash flows from/used in financing activities		32,211	(40,606)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(56,543)	(78,145)
Cash and cash equivalents at beginning of year		155,397	237,028
Effect of foreign exchange rate changes, net		6,068	(3,486)
CASH AND CASH EQUIVALENTS AT END OF YEAR		104,922	155,397
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	22	104,922	155,397

1. CORPORATE AND GROUP INFORMATION

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Feiyu Technology Hong Kong Ltd.	Hong Kong	HK$1	25 March 2014	100	–	Investment holding
Xiamen Guanghuan Information Technology Co., Ltd. ("Xiamen Guanghuan")	PRC/ Mainland China	RMB10,000,000	12 January 2009	–	100	Game development and distribution
Xiamen Youli Information Technology Co., Ltd. ("Xiamen Youli")	PRC/ Mainland China	RMB100,000,000	19 September 2011	–	100	Game development and distribution
Xiamen Yidou Information Technology Co., Ltd. ("Xiamen Yidou")	PRC/ Mainland China	RMB5,000,000	11 June 2012	–	100	Game development and distribution
Beijing Kailuo Tianxia Technology Co., Ltd. ("Kailuo Tianxia")	PRC/ Mainland China	RMB60,000,000	3 May 2012	–	100	Game development and distribution
Xiamen Feiyou Information Technology Co., Ltd.*	PRC/ Mainland China	US$5,000,000	24 June 2014	–	100	Investment holding
Xiamen Zhangxin Interactive Technology Co., Ltd. ("Xiamen Zhangxin")	PRC/ Mainland China	RMB100,000	27 October 2014	–	100	Game development and distribution
Xiamen Guangling Investment Management Co., Ltd. ** ("Xiamen Guangling")	PRC/ Mainland China	RMB10,000,000	10 November 2014	–	100	Game development and distribution
Xiamen Feixin Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/ Mainland China	RMB10,000,000	13 November 2014	–	100	Game development and distribution
Shenzhen Feiyuxingkong Internet Technology Co., Ltd. ("Xiamen Feixin")	PRC/ Mainland China	RMB1,000,000	23 February 2017	–	100	Game development and distribution
Xiamen Veewo Games Co., Ltd. ("Xiamen Veewo")	PRC/ Mainland China	RMB1,350,000	29 February 2016	–	51	Game development and distribution
Veewo Limited	Hong Kong	HKD10,000	12 January 2012	–	51	Game development and distribution

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

1. CORPORATE AND GROUP INFORMATION (Continued)

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

**Xiamen Guangyu Investment Management Co., Ltd. was renamed to Xiamen Guangling Investment Management Co., Ltd. in 2018.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to IFRS 4, amendments to IAS 40, IFRIC 22 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligations associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirely as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement
The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (continued)

Classification and measurement (Continued)

	Notes	IAS 39 measurement Category	IAS 39 measurement Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	IFRS 9 measurement Amount RMB'000	IFRS 9 measurement Category
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	92,374	–	–	–	FVOCI[1] (equity)
From: Available-for-sale investments	(i)			92,374	–	–		
Available-for-sale investments		AFS[2]	387,015	(387,015)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)			(92,374)	–	–		
To: Debt investments at fair value through profit or loss	(ii)			(205,223)	–	–		
To: Debt investments at fair value through other comprehensive income	(iii)			(89,418)	–	–		
Debt investments at fair value through other comprehensive income		N/A	–	89,418	–	–	89,418	FVOCI (debt)
From: Available-for-sale investments	(iii)			89,418	–			
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	(iv)	L&R[3]	25,501	–	–	–	25,501	AC[4]
Financial assets included in prepayments, other receivables and other assets		L&R	45,443	–	–	–	45,443	AC
Debt investments at fair value through profit or loss		FVPL[5]	–	205,223	–	–	205,223	FVPL (mandatory)
From: Available-for-sale investments	(ii)			205,223	–			
Other assets								
Deferred tax assets			1,284	–	–	–	1,284	
Cash and cash equivalents		L&R	155,397	–	–	–	155,397	AC
Total assets			614,640	–	–	–	614,640	

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (continued)

Classification and measurement (Continued)

	IAS 39 measurement					IFRS 9 measurement	
	Category	Amount RMB'000	Re-classification RMB'000	ECL RMB'000	Other RMB'000	Amount RMB'000	Category
Financial liabilities							
Financial liabilities included in other payables and accruals	AC	7,166	–	–	–	7,166	AC
Interest-bearing bank and other borrowings	AC	53,504	–	–	–	53,504	AC
Total liabilities		60,670	–	–	–	60,670	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its debt investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these investments did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) As of 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as AFS debt investments. The objective of the Group in holding this liquidity portfolio is to earn interest income and, at the same time, manage everyday liquidity needs. The Group concluded that these debt investments are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified these investments as debt investments measured at fair value through other comprehensive income.

(iv) The gross carrying amounts of the accounts receivable and receivables due from third-party game distribution platforms and payments channels under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

Impairment

The adoption of the impairment accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

Hedge accounting

The adoption of the hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) (continued)

Impact on reserves and accumulated losses
The impact of transition of IFRS 9 on reserves and accumulate losses is as follows:

	Reserves and accumulated losses RMB'000
Fair value reserve under IFRS 9 (available-for-sale investment revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	(6,779)
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	7,493
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	11,972
Balance as at 1 January 2018 under IFRS 9	12,686
Accumulated losses	
Balance as at 31 December 2017 under IAS 39	(380,612)
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	(7,493)
Remeasurement of debt investments at fair value through profit or loss previously measured at cost under IAS 39	5,015
Balance as at 1 January 2018 under IFRS 9	(383,090)

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

		Amounts prepared under		
	Note	**IFRS 15** RMB'000	**Previous IFRS** RMB'000	**Increase/ (decrease)** RMB'000
Liabilities				
Deferred revenue	(i)	–	13,325	(13,325)
Contract liabilities	(i)	13,325	–	13,325
Total liabilities		13,325	13,325	–

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 is described below:

(i) Consideration received from customers in advance
Before the adoption of IFRS 15, the Group recognised unconsumed virtual currency, advanced licensing and upfront fee as deferred revenue. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB13,325,000 from deferred revenue to contract liabilities as at 1 January 2018 in relation to the unconsumed virtual currency, advanced licensing and upfront fee as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB9,117,000 was reclassified from deferred revenue to contract liabilities in relation to the unconsumed virtual currency, advanced licensing and upfront fee.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

IFRS 16 replaces IAS 17 *Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group has assessed the impact of this standard and expects that the standard will not have a significant impact, when applied, on the consolidated financial statements of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

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

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

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

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

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

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

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

Research and development costs

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

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

Leases

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

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

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

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

Financial assets at amortised cost (debt instruments)
The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income (debt instruments)
The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

Financial assets at fair value through other comprehensive income (debt instruments) (Continued)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (both applicable from 1 January 2018 and before 1 January 2018)" below.

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)
Available-for-sale financial investments
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (both applicable from 1 January 2018 and before 1 January 2018)" below.

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

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

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) (Continued)

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (Continued)

General approach (Continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For accounts receivable and receivables due from third-party game distribution platforms and payment channels and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (Continued)

Financial assets carried at amortised cost (Continued)

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables as appropriate.

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Treasury shares

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

Revenue recognition (both applicable from 1 January 2018 and before 1 January 2018)

(a) *Game operation*

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (both applicable from 1 January 2018 and before 1 January 2018) (Continued)

(a) *Game operation (Continued)*

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

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

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

(b) *Online game distribution*

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

(c) *Licensing income*

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

(d) *Advertising revenue*

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

(e) *Sale of goods*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (both applicable from 1 January 2018 and before 1 January 2018) (Continued)

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

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

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

Equity-settled share-based payments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled share-based payments (Continued)

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

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

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

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

Other share-based payments

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

Other employee benefits

Pension scheme

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

Pension obligations

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

Housing benefits

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

Termination benefits

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

Borrowing costs

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

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate 3% has been applied to the expenditure on the individual assets.

Dividends

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

Foreign currencies

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB20,121,000 (2017: RMB24,047,000). Further details are given in note 15.

Fair value of unlisted equity investments
Certain unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 34 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2018 was RMB17,829,000. Further details are included in note 21 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

Information about a major customer
No revenue from the Company's sales to a single customer amounted to 10% or more of the Group's revenue for the year ended 31 December 2018 (2017: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

	2018 RMB'000	2017 RMB'000
Type of goods or service		
Online web and mobile games	64,905	106,761
Single-player mobile games	4,045	6,081
Game operation	68,950	112,842
– Gross basis	8,906	36,766
– Net basis	60,044	76,076
Online game distribution	940	2,916
Licensing income	6,875	9,362
Advertising revenue	6,169	5,980
Sale of goods	14	336
Technical service income	302	261
Total revenue from contracts with customers	83,250	131,697
Timing of revenue recognition		
Services transferred over time	6,875	9,362
Services and goods transferred at a point of time	76,375	122,335
Total revenue from contracts with customers	83,250	131,697
Other income		
Government grants	13,125	14,151
Interest income	8,275	11,230
	21,400	25,381
Gains		
Fair value gains, net:		
Financial assets	10,872	–
Available-for-sale investments (transfer from equity on disposal)	–	3,233
Dividend received from equity investment designated at fair value through other comprehensive income	626	–
Dividend income from available-for-sale investments	–	600
Gain on disposal of items of property, plant and equipment	4	447
Others	586	204
	12,088	4,484
	33,488	29,865

6. LOSS BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Channel costs		**3,265**	11,380
Rental fee (including servers)		**11,470**	10,926
Depreciation	13	**5,026**	6,106
Amortisation of intangible assets	16	**489**	3,830
Recognition of prepaid land lease payments		**–**	2,525
Advertising expenses		**5,067**	26,825
Auditor's remuneration		**2,100**	2,350
Impairment of goodwill*	15	**3,926**	300,477
Impairment of other receivable*	20	**–**	3,000
Impairment of property, plant and equipment*		**–**	995
Loss on disposal of a subsidiary*		**–**	5,808
Fair value loss on remeasurement of existing interests upon business combination*		**–**	665
Loss on fair value change of contingent considerations*		**–**	495
Employee benefit expenses (excluding directors' and chief executive's remuneration):			
Salaries and wages		**105,707**	90,049
Pension scheme contributions		**12,819**	13,408
Share-based payment expenses		**10,961**	25,685
Other compensation expenses		**2,450**	2,448
		131,937	131,590
Foreign exchange losses*		**173**	656
Loss/(gain) on disposal of items of property, plant and equipment, net		**11**	(211)

* These expenses are included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**1,904**	1,333

8. DIRECTORS' REMUNERATION

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

	Group	
	2018 RMB'000	2017 RMB'000
Fees	**2,893**	3,833
Other emoluments:		
Salaries, allowances and benefits in kind	**2,075**	3,490
Performance related bonuses	**270**	217
Pension scheme contributions	**182**	278
	5,420	7,818

(a) Independent non-executive directors

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

	2018 RMB'000	2017 RMB'000
Mr. Lai Xiaoling	**263**	260
Ms. Liu Qianli	**263**	260
Mr. Ma Suen Yee Andrew	**263**	260
	789	780

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	–	–	–	3	3
Mr. Bi Lin	526	714	60	48	1,348
Mr. Chen Jianyu	526	521	140	57	1,244
Mr. Lin Zhibin	526	420	35	37	1,018
Mr. Lin Jiabin	526	420	35	37	1,018
	2,104	2,075	270	182	4,631

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors					
Mr. Yao Jianjun *(chief executive)*	521	581	35	50	1,187
Mr. Bi Lin	521	519	54	53	1,147
Mr. Sun Zhiyan*	448	848	–	47	1,343
Mr. Chen Jianyu	521	697	58	48	1,324
Mr. Lin Zhibin	521	421	35	38	1,015
Mr. Lin Jiabin	521	424	35	42	1,022
	3,053	3,490	217	278	7,038

* Mr. Sun Zhiyan had resigned as an executive director and the chief technology officer of the Company with effect from 10 November 2017.

Except the chief executive, Mr. Yao Jianjun, there was no other arrangement under which a director waived or agree to waive any remuneration during this year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year are all non-director employees (2017: five non-director employees). Details of their remuneration for the year (2017: five) are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	4,445	4,080
Performance related bonuses	1,285	2,800
Equity-settled share-based payment expenses	7,874	9,265
Pension scheme contributions	204	208
	13,808	16,353

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HK$3,000,001 to HK$3,500,000	3	2
HK$3,500,001 to HK$4,000,000	1	2
HK$4,000,001 to HK$4,500,000	–	–
HK$4,500,001 to HK$5,000,000	–	1
HK$5,000,001 to HK$5,500,000	–	–
HK$5,500,001 to HK$6,000,000	–	–
HK$6,000,001 to HK$6,500,000	1	–
	5	5

During the year, share-based payments were made to five non-director highest paid employees in respect of their services to the Group (2017: five), further details of which are included in the disclosures in note 27 to the financial statements. The fair value of share-based payments, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director highest paid employees' remuneration disclosures.

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Under the relevant income tax law, the PRC subsidiaries were subject to income tax at a statutory rate of 25% for the year on their respective taxable income, except for Xiamen Yidou, Xiamen Guangling and Xiamen Feixin which were certified as Software Enterprises and are exempted from income tax for two years starting from the first year in which they generate taxable profit, followed by a 50% reduction for the next three years. 2014, 2015 and 2016 are the first profitable years for Xiamen Yidou, Xiamen Guangling and Xiamen Feixin, respectively. Xiamen Youli and Kailuo Tianxia were qualified as High and New Technology Enterprises ("HNTEs") in 2018 and entitled to a preferential income tax rate of 15% for a 3-year period.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB409,239,000 at 31 December 2018 (2017: RMB416,130,000).

	2018 **RMB'000**	2017 RMB'000
Current tax expense/(credit)	**1,766**	(1,508)
Deferred tax (note 18)	**502**	653
Total tax expense/(credit) for the year	**2,268**	(855)

10. INCOME TAX (Continued)

A reconciliation of the tax credit or expense applicable to loss before tax using the statutory rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax credit or expense at the effective tax rate is as follows:

	2018 RMB'000	2017 RMB'000
Loss before tax	(117,192)	(389,635)
Tax at the applicable tax rate	(27,896)	(99,792)
Lower tax rates enacted by local authorities	(2,811)	(10,543)
Expenses not deductible for tax	5,120	86,455
Other tax credit	(10,961)	(5,831)
Income not subject to tax	(971)	(150)
Tax losses utilised from previous years	(1,078)	(36)
Deferred tax assets not recognised	40,865	29,042
Tax expense/(credit)	2,268	(855)

11. DIVIDENDS

The Board does not recommend the payment of a final dividend to the ordinary equity holders of the Company for the year ended 31 December 2018 (for the year ended 31 December 2017: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the years attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,539,526,550 (2017: 1,548,600,256) in issue during the year, as adjusted to reflect the share issuance, repurchase and treasury shares on hand during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the impact of the share option outstanding had an anti-dilution effect in the basic loss per share amounts presented.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018					
At 31 December 2017 and at 1 January 2018:					
Cost	12,643	10,020	12,812	4,625	40,100
Accumulated depreciation and impairment	(9,533)	(6,434)	(10,036)	–	(26,003)
Net carrying amount	3,110	3,586	2,776	4,625	14,097
At 1 January 2018, net of accumulated depreciation and impairment	3,110	3,586	2,776	4,625	14,097
Additions	1,815	480	676	48,682	51,653
Disposals	(44)	–	–	–	(44)
Depreciation provided during the year	(1,974)	(1,148)	(1,904)	–	(5,026)
At 31 December 2018, net of accumulated depreciation and impairment	2,907	2,918	1,548	53,307	60,680
At 31 December 2018:					
Cost	14,027	10,500	12,890	53,307	90,724
Accumulated depreciation and impairment	(11,120)	(7,582)	(11,342)	–	(30,044)
Net carrying amount	2,907	2,918	1,548	53,307	60,680

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017					
At 31 December 2016 and at 1 January 2017:					
Cost	11,381	9,525	13,458	1,063	35,427
Accumulated depreciation	(8,057)	(7,055)	(6,939)	–	(22,051)
Net carrying amount	3,324	2,470	6,519	1,063	13,376
At 1 January 2017, net of accumulated depreciation	3,324	2,470	6,519	1,063	13,376
Additions	1,724	2,616	1,422	3,562	9,324
Acquisition of a subsidiary	77	–	–	–	77
Disposals	(103)	(383)	(1,093)	–	(1,579)
Impairment	–	–	(995)	–	(995)
Depreciation provided during the year	(1,912)	(1,117)	(3,077)	–	(6,106)
At 31 December 2017, net of accumulated depreciation and impairment	3,110	3,586	2,776	4,625	14,097
At 31 December 2017:					
Cost	12,643	10,020	12,812	4,625	40,100
Accumulated depreciation and impairment	(9,533)	(6,434)	(10,036)	–	(26,003)
Net carrying amount	3,110	3,586	2,776	4,625	14,097

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	106,307	109,062
Recognised during the year	(2,755)	(2,755)
Carrying amount at 31 December	103,552	106,307
Current portion included in prepayments, other receivables and other assets	(2,755)	(2,755)
Non-current portion	100,797	103,552

As at 31 December 2018, the prepaid land lease payments was pledged to a bank to secure a long term advance facility granted to the Group (note 24).

15. GOODWILL

	RMB'000
Cost at 1 January 2017, net of accumulated impairment	314,253
Acquisition of a subsidiary	11,210
Disposal of a subsidiary	(939)
Impairment during the year	(300,477)
At 31 December 2017	24,047
At 31 December 2017	
Cost	432,278
Accumulated impairment	(408,231)
Net carrying amount	24,047
Cost at 1 January 2018, net of accumulated impairment	24,047
Impairment during the year	(3,926)
At 31 December 2018	20,121
At 31 December 2018	
Cost	432,278
Accumulated impairment	(412,157)
Net carrying amount	20,121

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Super Phantom Cat cash-generating unit
- Sanguo Zhiren cash-generating unit
- Shenzhen Zhangxin cash-generating unit

15. GOODWILL (Continued)

The recoverable amounts of the above cash-generating units have been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the board of directors. The discount rates applied to the cash flow projections are 21% and 31% (2017: 24%). The growth rate used to extrapolate the cash flows of the relevant games beyond the five-year period is 3%. The carrying amount of goodwill allocated to each cash-generating unit is as follows:

	2018 RMB'000	2017 RMB'000
Super Phantom Cat cash-generating unit	11,040	12,450
Shenzhen Zhangxin cash-generating unit	8,694	11,210
Sanguo Zhiren cash-generating unit	387	387
Carrying amount of goodwill	20,121	24,047

Assumptions were used in the value in use calculation of the cash-generating units for the years ended 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The budgeted income includes estimated income from existing games and games in the pipeline, taking into account game popularity, income patterns in the game life cycle and the Group's strategy in operation. The Company believes this budgeted income is justified given the strong game development capability and experience of games, the cooperation with major third-party distribution platforms and the successful record of developing its games.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Game intellectual properties and licences RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation and impairment	1,801	–	1,801
Additions	–	2,330	2,330
Amortisation provided during the year	(231)	(258)	(489)
At 31 December 2018	1,570	2,072	3,642
At 31 December 2018:			
Cost	6,041	76,966	83,007
Accumulated amortisation and impairment	(4,471)	(74,894)	(79,365)
Net carrying amount	1,570	2,072	3,642
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation and impairment	2,032	3,599	5,631
Amortisation provided during the year	(231)	(3,599)	(3,830)
At 31 December 2017	1,801	–	1,801
At 31 December 2017:			
Cost	6,041	74,636	80,677
Accumulated amortisation and impairment	(4,240)	(74,636)	(78,876)
Net carrying amount	1,801	–	1,801

17. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Shares of net assets	823	2,204
Goodwill on acquisition	35,244	7,025
	36,067	9,229

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' losses for the year	(2,899)	(218)
Aggregate carrying amount of the Group's investments in the associates	36,067	9,229

18. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	**Contract liabilities/ deferred revenue** RMB'000	**Accruals** RMB'000	**Total** RMB'000
At 1 January 2017	–	1,690	697	2,387
Deferred tax charged to the statement of profit or loss during the year (note 10)	–	(970)	(133)	(1,103)
At 31 December 2017	–	720	564	1,284
At 1 January 2018	–	720	564	1,284
Deferred tax credited to the other comprehensive income during the year	2,856	–	–	2,856
Deferred tax credited/(charged) to the statement of profit or loss during (note 10)	–	28	(23)	5
At 31 December 2018	2,856	748	541	4,145

18. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

Deferred tax assets have not been recognised in respect of tax losses of RMB383,254,000 as at 31 December 2018 (2017: RMB220,603,000), as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax liabilities

	Value appreciation of intangible assets during acquisition of Kailuo Tianxia RMB'000
At 1 January 2017	450
Deferred tax credited to the statement of profit or loss during the year (note 10)	(450)
At 31 December 2017	–

	Fair value adjustments of an debt investment at fair value through profit or loss RMB'000	**Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000**	**Total RMB'000**
At 1 January 2018	–	–	–
Deferred tax credited to the statement of profit or loss during the year (note 10)	507	–	507
Deferred tax credited to other comprehensive income during the year	–	8,094	8,094
At 31 December 2018	507	8,094	8,601

19. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS

The Group's credit terms with customers generally range from one month to four months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its receivable balances. These receivables are non-interest-bearing.

An ageing analysis of the receivables as at the end of the year, based on the invoice date and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	21,980	25,501

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels using a provision matrix:

As at 31 December 2018

			Past due		
	Current	Less than 1 month	1 to 3 months	Over 3 months	Total
Expected credit loss rate	–	–	–	–	–
Gross carrying amount (RMB'000)	21,980	–	–	–	21,980
Expected credit losses (RMB'000)	–	–	–	–	–

19. ACCOUNTS RECEIVABLE AND RECEIVABLES DUE FROM THIRD-PARTY GAME DISTRIBUTION PLATFORMS AND PAYMENT CHANNELS (Continued)

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 is was no provision for individually impaired accounts receivable and receivables due from third-party game distribution platforms and payment channels with a carrying amount before provision of RMB25,501,000.

The ageing analysis of the receivables as at 31 December 2017 that were not considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Within 3 months	25,501

All of the receivables that were neither past due nor impaired mainly related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were within 3 months related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Non-current		
Prepayments	14,697	999
Prepaid land lease payments related deposits*	1,605	6,420
Other receivables	1,174	1,817
	17,476	9,236
Current		
Prepayments	11,786	8,436
Deposits	11,517	11,171
Other receivables	18,474	26,035
	41,777	45,642

* In 2016, the Group made a land lease related deposit of RMB10,700,000 to the government, among which RMB4,815,000 was included in the current portion as at 31 December 2018 (2017: RMB4,280,000). The amount will be returned to the Group in the future after the Group meets certain criteria.

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The movements in the loss allowance for impairment of other receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	3,000	–
Impairment losses recognised	–	3,000
At end of year	3,000	3,000

Deposits and other receivables mainly represent rental deposits and deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2018, the probability of default is 0% and the loss given default was estimated to be Nil. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied for where there are no comparable companies as at 31 December 2018 was 0%.

21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 RMB'000	2017 RMB'000
Debt investments at fair value through other comprehensive income			
Straight bonds	(1)	25,076	–
Equity investments designated at fair value through other comprehensive income			
Unlisted equity investments, at fair value	(2)		
Non-current			
Xiamen eName Technology Co., Ltd.		13,963	–
GFT International Holding Limited		10,252	–
GameSky Global PTE LTD		2,520	–
Xiamen Eling Network Technology Co., Ltd.		1,346	–
		28,081	–
Current			
Ewan Shanghai Network Technology Co., Ltd.		108,500	–
		136,581	–
Debt investments at fair value through profit or loss			
Unlisted debt investments, at fair value	(3)		
Apollo Capital L.P.		17,738	–
Future Capital Discovery Fund II, L.P.		14,423	–
Farasis Energy (Ganzhou) Investment Fund, L.P.		11,884	–
Convertible bond	(4)	13,738	–
Convertible preferred shares	(5)	43,588	–
Investment in life insurance policies	(6)	94,823	–
		196,194	–
Available-for-sale investments			
Straight bonds	(1)	–	89,418
Unlisted equity investments, at cost	(2)/(3)	–	128,941
Convertible bond	(4)	–	19,948
Convertible preferred shares	(5)	–	43,861
Investment in life insurance policies	(6)	–	87,863
		–	370,031

21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE INVESTMENTS (Continued)

(1) On 17 February 2015, the Group invested in a bond issued by Huarong Finance II Co., Ltd. with a nominal amount of US$5,000,000 at a consideration of US$5,135,000 (equivalent to approximately RMB31.5 million). The bond has a coupon interest rate of 4.5% per annum with a maturity period of 5 years. On 26 December 2016, the Group sold part of the straight bond with a nominal amount of US$1,500,000 at a consideration of US$1,566,000 (equivalent to approximately RMB10.8 million). In July to December 2018, the Group sold part of the above straight bond with a nominal amount of US$3,300,000 for a consideration of US$3,325,000 (equivalent to approximately RMB22.8 million).

On 9 September 2016, the Group invested in a bond issued by Zhongrong International Trust Co., Ltd. with a nominal amount of US$3,000,000 at a consideration of US$3,062,000 (equivalent to approximately RMB20.4 million). The bond has a coupon interest rate of 6% per annum with a maturity period of 3 years. On 15 June 2018, the Group sold the above straight bond with a nominal amount of US$3,000,000 at a consideration of US$3,077,000 (equivalent to approximately RMB20.4 million).

On 23 June 2017, the Group invested in a bond issued by Huarong Finance 2017 Co., Ltd. with a nominal amount of US$3,000,000 at a consideration of US$3,142,000 (equivalent to approximately RMB21.4 million). The bond has a coupon interest rate of 4.75% per annum with a maturity period of 10 years.

On 27 June 2017 and 28 June 2017, the Group invested in a bond issued by The Bank of East Asia, Limited with a nominal amount of US$4,000,000 at a consideration of US$4,093,000 (equivalent to approximately RMB27.9 million). The bond has a coupon interest rate of 4.25% for first five years and an aggregate of the then-prevailing U.S. Treasury Rate and the Spread, 2.7%, for the next five years with a maturity period of 10 years. In September to December 2018, the Group sold part of the above straight bond with a nominal amount of US$3,300,000 for a consideration of US$3,338,000 (equivalent to approximately RMB23.1 million).

Debt investments at fair value through other comprehensive income are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(2) The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

In May 2018, the Group sold its equity interest in Xiamen Midai Investment Management Co., Ltd. as this investment no longer coincided with Group's investment strategy. The fair value on the dates of sale was RMB2,740,000 and the accumulated loss recognised in other comprehensive income of RMB260,000 was transferred to retained earnings.

During the year ended 31 December 2017, the net gain in respect of the Group's investments recognised in other comprehensive income amounted to RMB11,372,000, of which RMB3,233,000 was reclassified from other comprehensive income to the statement of profit or loss for the year.

(3) In June 2018, the Group sold part of its equity interest in Apollo Capital L.P. due to the Group's investment strategy. The fair value on the date of sale was RMB25,048,000 and the accumulated gain recognised in other comprehensive income of RMB5,021,000 was transferred to retained earnings.

During the year ended 31 December 2018, the Group received dividends in the amount of RMB626,000 from Future Capital Discovery Fund II, L.P..

21. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME, DEBT INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE INVESTMENTS (Continued)

(4) On 6 April 2015, the Group invested in a perpetual convertible bond issued by Standard Chartered PLC with a nominal amount of US$8,000,000 and a coupon interest rate of 6.5% per annum at a consideration of US$8,101,000 (equivalent to approximately RMB49.7 million). In July and August 2016, the Group sold part of the above perpetual convertible bond with a nominal amount of US$5,000,000 for a consideration of US$4,788,000 (equivalent to approximately RMB31.9 million). On 31 January 2018, the Group sold another part of the above perpetual convertible bond with a nominal amount of US$1,000,000 for a consideration of US$1,056,000 (equivalent to approximately RMB6.7 million).

The coupon interest can be cancelled any time at the issuer's sole discretion. The convertible bond shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants.

Debt investments at fair value through profit or loss is that which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(5) On 18 February 2015, the Group invested in convertible preferred shares issued by Industrial and Commercial Bank of China Limited with a nominal amount of US$5,000,000 at a consideration of US$5,225,000 (equivalent to approximately RMB32.0 million). The convertible preferred shares have a non-cumulative dividend of 6% per annum.

On 30 September 2016, the Group invested in convertible preferred shares issued by China Cinda Asset Management Co., Ltd. with a nominal amount of US$1,500,000 at a consideration of US$1,504,000 (equivalent to approximately RMB10.0 million). The convertible preferred shares have a non-cumulative dividend of 4.45% per annum.

The declaration of dividend is at the issuer's sole discretion. The convertible preferred shares shall be converted into ordinary shares of the issuer if the issuer failed to meet certain covenants. The Group is not entitled to any voting right by holding such convertible preferred shares unless the dividend has not been paid in full for the most recent two dividend periods or a total of three dividend payments have not been paid in full.

Debt investments at fair value through profit or loss are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

(6) In August 2015, the Group entered into life insurance policies with an insurance company to insure certain members of the key management of the Group. Under these policies, the beneficiary and policy holder is the Company. The Company has paid out the total insurance premium with an aggregate amount of approximately US$14.5 million (equivalent to approximately RMB89.0 million) at the inception of the insurance. The Company can terminate the policy at any time and receive back based on the surrender value of the contract at the date of withdrawal, which is determined by the insurance premium of each insurance policy plus the accumulated interest earned and minus the insurance costs ("Surrender Value"). In addition, if the withdrawal is made between the first and tenth policy years, there is a special amount of surrender charge by the insurance company. The insurance company will declare a guaranteed interest of 3.9% per annum plus a premium determined by the insurance company on the outstanding Surrender Value of the contract for the first three years. Commencing from the fourth year, the guaranteed interest will be reduced to 2% per annum.

As at 31 December 2018, the insurance premium was pledged to a bank to secure a short term advance facility granted to the Group (note 24).

22. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**104,922**	155,397
Cash and cash equivalents	**104,922**	155,397
Denominated in HK$	**34,085**	12,067
Denominated in RMB	**63,101**	122,608
Denominated in US$	**7,736**	20,722
Cash and cash equivalents	**104,922**	155,397

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

23. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Salaries and welfare payables	**41,771**	43,659
Other payables and accruals	**41,942**	10,166
Other tax payables	**1,389**	1,517
Advance from customers	**66**	112
	85,168	55,454

24. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans-secured	4.413 2.683	Weekly renewable	57,408 26,286	2.436	Monthly renewable	53,504
			83,694			53,504
Non-current						
Other-secured bank loans	5.047	2020	9,340	–	–	–
			93,034			53,504

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	83,694	53,504
In the second year	9,340	–

Notes:

(a) The Group's short term loan facility amounted to US$20,000,000 (2017: US$40,000,000), of which HK$95,519,000 (equivalent to approximately US$12.2 million) (2017: HK$64,007,000) had been drawn as at the end of the reporting period, and is secured by the Group's investment in the life insurance policies (note 21). The period of the loan is one month and renewable on a weekly basis.

(b) The Group's long term loan facility amounted to RMB120,000,000 (2017: Nil), of which RMB9,340,000 (2017: Nil) had been drawn as at the end of the reporting period, and is secured by the Group's prepaid land lease payments (note 14). The loan will be repaid in 2020.

25. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018	1 January 2018
Short-term advances received		
Online web and mobile games	1,330	1,863
Licensing income	3,742	6,576
Long-term advances received		
Online web and mobile games	124	109
Licensing income	3,921	4,777
Total contract liabilities	9,117	13,325

Contract liabilities mainly represented prepaid unconsumed virtual currencies, virtual items from players and remaining upfront licenses fee for online game services from game distribution platforms, for which the related services had not been rendered as at 31 December 2018. Contract liabilities in relation to operations of online games were previously included in deferred revenue (approximately RMB13,325,000 as at 1 January 2018).

26. SHARE CAPITAL

Shares

	2018	2017
Issued and fully paid or credited as fully paid:		
Ordinary shares of US$0.0000001 each	1,546,943,455	1,546,901,955
Equivalent to RMB'000	1	1

26. SHARE CAPITAL (Continued)

Shares (Continued)

A summary of movements in the Company's share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2017	1,569,261,000	1	504,719	504,720
RSU exercised	7,000,000	–	7,616	7,616
Share options exercised	12,353,000	–	19,377	19,377
Issue of shares	11,183,955	–	11,915	11,915
Cancellation of repurchased shares	(52,896,000)	–	(52,693)	(52,693)
At 31 December 2017	1,546,901,955	1	490,934	490,935
RSU exercised	7,000,000	–	7,616	7,616
Share options exercised	6,066,000	–	9,869	9,869
Cancellation of repurchased shares (a)	(13,024,500)	–	(9,966)	(9,966)
At 31 December 2018	1,546,943,455	1	498,453	498,454

(a) Repurchase of shares

The Company cancelled 13,024,500 repurchased shares with the carrying amount of RMB9,966,000 during the year.

27. EQUITY-SETTLED SHARE-BASED PAYMENT

(1) Share option schemes

The Company approved and adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme", together as the "Schemes") pursuant to shareholders' written resolutions and directors' written resolution passed on 17 November 2014. The purpose of the Schemes is to provide rewards to eligible participants for their service to the Group. Eligible participants include any full-time employees, consultants, executives or officers of the Company and any of its subsidiaries who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of ordinary shares subject to the Pre-IPO Share Option Scheme is 105,570,000. On 17 November 2014, under the Pre-IPO Share Option Scheme, share options were granted to 2 members of senior management and 120 other employees to subscribe for 105,570,000 shares at an exercise price of HK$0.55 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 31 December 2015, 2016, 2017 and 2018, respectively. Each option granted if not exercised subsequently will expire on 5 December 2019.

The maximum number of shares to be issued upon exercise of all share options to be granted under the Post-IPO Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 150,000,000 shares and 30% of the shares of the Company in issue from time to time. On 27 March 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 10,160,000 shares at an exercise price of HK$1.256 per share. 7,160,000 share options granted will be vested equally in four tranches as to 25% of the number of shares on 31 December 2017, 2018, 2019 and 2020, respectively. 3,000,000 share options granted will be vested in three tranches as to 50%, 25% and 25% of the number of shares on 30 June 2017, 2018 and 2019, respectively. Each option granted if not exercised subsequently will expire on 26 March 2027. On 15 May 2017, under the Post-IPO Share Option Scheme, share options were granted to employees to subscribe for 5,000,000 shares at an exercise price of HK$1.1 per share. All share options granted will be vested equally in four tranches as to 25% of the aggregate number of shares on 15 May 2018, 2019, 2020 and 2021, respectively. Each option granted if not exercised subsequently will expire on 14 May 2027. On 13 November 2017, under the Post-IPO Share Option Scheme, share options were granted to one member of senior management to subscribe for 15,000,000 shares at an exercise price of HK$1.026 per share. All share options granted will be vested equally in three tranches as to 33% of the aggregate number of shares on 13 November 2018, 2019 and 2020, respectively. Each option granted if not exercised subsequently will expire on 12 November 2027.

27. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

(1) Share option schemes (Continued)

The following share options were outstanding under the Schemes during the year:

	2018		2017	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	0.89	83,313	0.71	69,507
Granted during the year	–	–	1.12	30,160
Forfeited during the year	0.55	(4,813)	0.61	(4,000)
Exercised during the year	0.55	(6,066)	0.55	(12,353)
Expired during the year	0.55	(405)	0.55	(1)
At 31 December	0.94	72,029	0.89	83,313

The weighted average share price at the date of exercise for the share options exercised during the year was HK$0.87 per share (2017: HK$1.14 per share).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options '000	Exercise price* HK$ per share	Exercise period
38,229	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
6,800	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
5,000	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
72,029		

27. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

(1) Share option schemes (Continued)

2017 Number of options '000	Exercise price* HK$ per share	Exercise period
49,513	0.55	31-12-2015 to 05-12-2019
3,000	3.93	10-06-2016 to 09-06-2025
1,000	1.63	31-12-2016 to 04-07-2026
6,800	1.26	31-12-2017 to 26-03-2027
3,000	1.26	30-06-2017 to 26-03-2027
5,000	1.10	15-05-2018 to 14-05-2027
15,000	1.03	13-11-2018 to 12-11-2027
83,313		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The 6,066,000 share options exercised during the year resulted in the issue of 6,066,000 ordinary shares of the Company and share premium of RMB6,946,000 before issue expenses, as further detailed in note 26 to the financial statements.

At the end of the reporting period, the Company had 72,029,000 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 72,029,000 additional ordinary shares of the Company, an additional share capital of approximately RMB49 and a share premium of approximately RMB59,285,000.

At the date of approval of these financial statements, the Company had 72,029,000 share options outstanding under the Schemes, which represented 4.66% of the Company's shares in issue as at that date.

The Group recognised total share option expenses of RMB6,609,000 for the year ended 31 December 2018 (2017: RMB14,805,000).

27. EQUITY-SETTLED SHARE-BASED PAYMENT (Continued)

(2) Restricted Share Unit ("RSU") Plan

The Company approved and adopted a pre-IPO restricted share unit plan (the "Pre-IPO RSU Plan") and a post-IPO restricted share unit plan (the "Post-IPO RSU Plan") on 17 November 2014 for the purpose of rewarding eligible participants for their contribution to the Group. Eligible participants of the Pre-IPO RSU Plan and Post-IPO RSU Plan include full-time employees, officers or suppliers, customers, consultants, agents or advisers of the Group, and any other persons who, in the sole opinion of the Board, have contributed or will contribute to the Group.

The total number of the ordinary shares underlying awards made pursuant to the Pre-IPO RSU Plan is 13,850,000. On 17 November 2014, RSUs to subscribe for 13,850,000 shares were granted to certain eligible employees and all of the 13,850,000 Pre-IPO RSUs granted were vested on 1 April 2015.

The maximum number of shares that may underlie awards of RSUs to be granted under the Post-IPO RSU Plan is 45,000,000 shares. On 27 March 2017, under the Post-IPO RSU Plan, the Company conditionally granted a total number of 14,000,000 RSUs to certain eligible employees. Such RSUs shall be vested 50% each at 31 December of years 2017 and 2018, respectively.

The fair value of the RSUs granted as at the date of grant was approximately RMB15,232,000 (HK$1.23 each), of which the Group recognised a total RSU award expense of RMB4,352,000 in the year 2018 (2017: RMB10,880,000).

As at 31 December 2018, there were no RSUs outstanding under the Post-IPO RSU Plan.

28. RESERVES

Statutory reserve

Pursuant to the relevant PRC rules and regulations and the articles of association, those PRC subsidiaries which are domestic enterprises in the PRC as mentioned in note 1 to the financial statements are required to transfer no less than 10% of their profit after taxation, as determined under PRC accounting regulations, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

29. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	2018 Bank and other loans RMB'000
At 1 January 2018	53,504
Changes from financing cash flows	36,951
Foreign exchange movement	2,579
At 31 December 2018	93,034

	2017 Bank and other loans RMB'000
At 1 January 2017	55,655
Changes from financing cash flows	(1,081)
Foreign exchange movement	(1,070)
At 31 December 2017	53,504

30. OPERATING LEASE ARRANGEMENTS

Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

As lessee

	2018 RMB'000	2017 RMB'000
Within one year	4,430	8,011
In the second to third years, inclusive	475	4,539
In the fourth to fifth years	–	124
	4,905	12,674

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Construction in progress	72,021	88,140
Capital contributions payable to an unlisted equity investment	1,855	4,574
Game operation	3,247	1,135
	77,123	93,849

32. RELATED PARTY TRANSACTIONS

(a) Name and relationship of related parties

Name	Relationship
Fine Point Development Limited ("Fine Point")	Controlled by one member of senior management of the Group*
Beijing Feiyu Interactive Cultural Media Co., Ltd ("Beijing Feiyu")	Controlled by directors of the Company
Guangzhou Popcorn Animation Technology Co., Ltd. ("Guangzhou Popcorn")	Associate
Shanghai Kamao Network Technology Co., Ltd. ("Shanghai Kamao")	Associate
Shenzhen Zhangxin	Subsidiary**
Xiamen Chenxing Interactive Technology Co., Ltd. ("Xiamen Chenxing")	Associate
Chen Jianyu	Shareholder of the Company

* The member of senior management resigned on 31 December 2016.

** Shenzhen Zhangxin became a subsidiary of the Group in November 2017.

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties

The following transactions were carried out with related parties:

	2018 Number of shares '000	2017 Number of shares '000
Shares issued (note (i))		
Fine Point	–	11,184

	2018 RMB'000	2017 RMB'000
Service outsourcing from (note (ii))		
Guangzhou Popcorn	14	957
Purchases of an intellectual property right (note (iii))		
Beijing Feiyu	2,330	–
Purchases of property, plant and equipment		
Chen Jianyu	–	891
Loans to associates		
Xiamen Chenxing (note (iv))	6,001	5,422
Shenzhen Zhangxin (note (v))	–	2,500
	6,001	7,922
Interest from (note (v))		
Shenzhen Zhangxin	–	44

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with related parties (Continued)

Notes:

(i) On 26 August 2015, the Group entered into a share transfer agreement to acquire the non-controlling interests in Xiamen Yidou and Xiamen Zhangxin from Fine Point through allotting and issuing a maximum of 118,000,000 shares to Fine Point. The maximum of 118,000,000 shares will be allotted and issued in four tranches which will be adjusted based on the financial results of Xiamen Yidou and Xiamen Zhangxin in the future years. Based on the share transfer agreement, upon completion of the acquisition of the non-controlling interests, the first tranche of 29,500,000 shares were issued at an issue price of HK$1.97 per share and listed on the Hong Kong Stock Exchange on 26 August 2015, and the second tranche of 29,500,000 shares were issued at an issue price of HK$2.18 per share and listed on the Hong Kong Stock Exchange on 31 March 2016. The third tranche of 11,183,955 shares were issued at an issue price of HK$1.20 per share and listed on the Hong Kong Stock Exchange on 31 March 2017. A fair value change amounting to RMB495,000 was recognised for the year ended 31 December 2017. The fourth tranche of a maximum of 29,500,000 shares were waived based on the mutual agreement between the Group and Fine Point on 31 December 2016.

(ii) The purchase of video production services from Guangzhou Popcorn was mutually agreed after taking into account the prevailing market prices.

(iii) The purchase of intellectual property rights from Beijing Feiyu in 2018 was mutually agreed after taking into account the prevailing market prices.

(iv) The Group offered a interest free loan amounting to RMB6,001,000 and RMB5,422,000 to an associate, Xiamen Chenxing in 2018 and 2017, respectively.

(v) The Group offered loans amounting to RMB2,500,000 at 5% p.a. to Shenzhen Zhangxin, and the loans have been repaid in 2018.

(c) Balances with related parties:

Due from an associate	2018 RMB'000	2017 RMB'000
Shanghai Kamao	971	–
Xiamen Chenxing	11,423	5,422
	12,394	5,422

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	4,768	3,157
Performance related bonuses	1,358	1,754
Equity-settled share-based payment expenses	6,644	5,057
Pension scheme contributions	173	110
	12,943	10,078

Further details of directors' emoluments are included in note 8 to the financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year were as follows:

Financial assets

As at 31 December 2018

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comperhensive income		Financial assets at amortised cost	
	Debt investments RMB'000	Debt investments RMB'000	Equity investments RMB'000	RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income	–	25,076	–	–	25,076
Equity investments designated at fair value through other comprehensive income	–	–	136,581	–	136,581
Debt investments at fair value through profit or loss	196,194	–	–	–	196,194
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	–	–	21,980	21,980
Financial assets included in prepayments, other receivables and other assets	–	–	–	32,770	32,770
Cash and cash equivalents	–	–	–	104,922	104,922
	196,194	25,076	136,581	159,672	517,523

As at 31 December 2017

	Available-for-sale financial assets RMB'000	Loans and receivables RMB'000	Total RMB'000
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	25,501	25,501
Financial assets included in prepayments, deposits and other receivables	–	45,443	45,443
Available-for-sale investments	370,031	–	370,031
Cash and cash equivalents	–	155,397	155,397
	370,031	226,341	596,372

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost	
	2018	2017
	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	**22,356**	7,166
Interest-bearing bank borrowing (note 24)	**93,034**	53,504
	115,390	60,670

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, accounts receivable and receivables due from third-party game distribution platforms and payment channels, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and an interest-bearing bank borrowing approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the board of directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors once a year for annual financial reporting.

The fair values of debt investments at fair value through other comprehensive income and debt investments at fair value through profit or loss have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when the investments mature. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values are reasonable, and that they were the most appropriate values at the end of the year.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale equity investments, have been estimated using equity transaction price or a market-based valuation technique valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to revenue ("EV/Revenue") multiple. The multiple is calculated by dividing the enterprise value of the comparable company by revenue measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiple	Average EV/Revenue multiple of peers	2018: 4.6 to 4.8	5% increase/decrease in multiple would result in increase/decrease in fair value by RMB771,000
		Discount for lack of marketability	2018: 14% to 16%	5% increase/decrease in multiple would result in decrease/increase in fair value by RMB158,000

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Debt investments at fair value through other comprehensive income	–	25,076	–	25,076
Debt investments at fair value through profit or loss	–	196,194	–	196,194
Equity investments designated at fair value through other comprehensive	–	118,752	17,829	136,581
	–	340,022	17,829	357,851

As at 31 December 2017

	Fair value measurement using			
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	–	241,090	–	241,090

The Group did not have any financial liabilities measured at fair value as at 31 December 2018 and 31 December 2017.

For the year ended 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise, interest-bearing bank borrowings, debt investments at fair value through other comprehensive income, debt investments at fair value through profit or loss, equity investments designated at fair value through other comprehensive income, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and receivables due from third-party game distribution platforms and payment channels and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for debt investments at fair value through other comprehensive income, accounts receivable and receivables due from third-party game distribution platform and payment channels and the exposure to credit risk for the financial guarantee contracts.

	12-months ECLs		Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Debt investments at fair value through other comprehensive income – BBB+ to BBB	–	–	–	25,076	25,076
Accounts receivable and receivables due from third-party game distribution platforms and payment channels	–	–	–	21,980	21,980
	–	–	–	47,056	47,056

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments, deposits and other receivables, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by counterparty. At the end of the reporting period, the Group had certain concentrations of credit risk as 54% (2017: 37%) of the Group's accounts receivable and receivables due from third-party game distribution platforms and payment channels were due from the Group's largest counterparty.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows and maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings.

The maturity profile of the Group's financial liabilities at the end of the year, based on the contractual undiscounted payments, is as follows:

Group

	2018					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	83,694	–	9,340	–	93,034
Other payables	10,455	5,206	6,695	–	–	22,356
	10,455	88,900	6,695	9,340	–	115,390

	2017					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	53,504	–	–	–	53,504
Other payables	1,600	5,566	–	–	–	7,166
	1,600	59,070	–	–	–	60,670

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The debt-to-asset ratios as at the end of the 31 December 2018 and 31 December 2017 were as follows:

	2018 RMB'000	2017 RMB'000
Total liabilities	**198,638**	126,561
Total asset	**776,612**	762,249
Debt to asset ratio	**26%**	17%

36. EVENT AFTER THE REPORTING PERIOD

The Group entered into a share transfer agreement with the purchasers Xindong Network Co., Ltd. and Xiamen Geecap Investment Co., Ltd. to dispose of a 4.34% equity interest in Ewan Shanghai Network Technology Co., Ltd. at a total cash consideration of RMB108,500,000, as disclosed in the Company's announcement dated 31 January 2019. Upon completion, the Group will no longer hold any interest in Ewan Shanghai Network Technology Co., Ltd..

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	Note	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries		117,587	405,582
Due from subsidiaries		207,233	108,597
Debt investments at fair value through other comprehensive income		25,076	–
Debt investments at fair value through profit or loss		152,150	–
Available-for-sale investments		–	241,090
Total non-current assets		502,046	755,269
CURRENT ASSETS			
Prepayments, other receivables and other assets		261	177
Cash and cash equivalents		32,093	17,922
Total current assets		32,354	18,099
CURRENT LIABILITIES			
Due to subsidiaries		10,165	1,161
Other payables and accruals		26	336
Interest-bearing bank borrowing		83,694	53,504
Total current liabilities		93,885	55,001
NET CURRENT ASSETS		(61,531)	(36,902)
NET ASSETS		440,515	718,367
EQUITY			
Share capital	26	1	1
Share premium	26	498,453	490,934
Treasury shares		–	(2,906)
Reserves (note)		(57,939)	230,338
Total equity		440,515	718,367

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Equity-settled share-based payment reserve RMB'000	Financial assets revaluation reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	146,083	(15,058)	42,012	62,891	235,928
Total comprehensive loss for the year	–	8,279	(21,865)	3,924	(9,662)
Equity-settled share-based payment expenses	25,685	–	–	–	25,685
Exercise of options	(21,613)	–	–	–	(21,613)
At 31 December 2017	150,155	(6,779)	20,147	66,815	230,338
Effect of adoption of IFRS 9	–	7,493	–	–	7,493
Total comprehensive loss for the year	–	(1,395)	14,348	(305,122)	(292,169)
Equity-settled share-based payment expenses	10,961	–	–	–	10,961
Exercise of options	(14,562)	–	–	–	(14,562)
At 31 December 2018	146,554	(681)	34,495	(238,307)	(57,939)

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of the directors on 29 March 2019.

DEFINITION

"AGM"	The annual meeting of the Company to be held on Monday, 27 May 2019
"Android"	an operating system developed and maintained by Google Inc.
"ARPPU"	average revenue per paying user, calculated by dividing monthly average revenue from the sale of virtual items and premium features during a certain period by the number of average MPUs during the same period
"Articles of Association" or "Articles"	the articles of association of the Company adopted on 17 November 2014, as amended from time to time
"Audit Committee"	the audit committee of the Board
"Board" or "Board of Directors" or "our Board"	the board of Directors
"Cayman Companies Law" or "Companies Law"	the Companies Law of the Cayman Islands, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Cayman Islands"	the Cayman Islands
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"Chief Executive Officer"	the chief executive officer of our Company
"China" or "PRC"or "Mainland China"	the People's Republic of China excluding, for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "we", "us" or "our"	Feiyu Technology International Company Ltd., an exempted company incorporated in the Cayman Islands with limited liability on 6 March 2014
"Contractual Arrangements"	a series of contractual arrangements entered into by Xiamen Feiyou, the PRC Contractual Entities and the Relevant Shareholders
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, depending on the context, refers to Mr. YAO Jianjun, Mr. BI Lin, YAO Holdings Limited, BILIN Holdings Limited, Jolly Spring International Limited and Rayoon Limited
"Director(s)"	directors of the Company

"ESG Report"	Environmental, Social and Governance Report
"Executive Director(s)"	the executive Director(s)
"Feiyu Hong Kong"	Feiyu Technology Hong Kong Limited (飛魚科技香港有限公司), a direct wholly-owned subsidiary of our Company and a limited company incorporated under the laws of Hong Kong on 25 March 2014
"Global Offering"	the offer of 30,000,000 Shares for subscription by the public in Hong Kong pursuant to the Hong Kong Public Offering and the offer of 270,000,000 Shares for subscription by institutional, professional, corporate and other investors pursuant to the International Offering (as respectively defined in the Prospectus)
"Group", "our Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"HK$" or "Hong Kong dollars" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAS(s)"	International Accounting Standards
"IASB"	International Accounting Standards Board
"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the IASB
"Independent Non-executive Director(s)"	the independent non-executive Director(s)
"iOS"	a mobile operating system developed and maintained by Apple Inc. used exclusively in Apple touchscreen technology including, iPhones, iPods, and iPads
"IPO"	initial public offering of the Shares on the Main Board of the Stock Exchange
"Kailuo Tianxia"	Beijing Kailuo Tianxia Technology Co., Ltd. (北京凱羅天下科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Licensed Property"	collectively, the Xiamen Guangyu (currently known as Xiamen Guangling) Licensed Property, the Kailuo Tianxia Licensed Property and the Xiamen Youli Licensed Property
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange

DEFINITION

"Listing Date"	the date which dealings in Shares first commence on the Main Board of the Stock Exchange, i.e. 5 December 2014
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MAU"	monthly active users, which is the number of players who logged into a particular game in the relevant calendar month. Under this metric, a player who logged into two different games in the same month is counted as two MAUs. Similarly, a player who plays the same game on two different publishing platforms in a month would be counted as two MAUs. Average MAUs for a particular period is the average of the MAUs in each month during that period
"Meitu"	Meitu, Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands, share of which are listed on the Main Board of Stock Exchange (Stock Code:1357)
"Meitu Networks"	Xiamen Meitu Networks Technology Co., Ltd. (廈門美圖網科技有限公司), a limited liability company established under the laws of the PRC, is one of the important consolidated variable interest entities controlled through a series of contractual arrangement by Meitu
"Memorandum"	the memorandum of association of the Company adopted on 17 November 2014, as amended from time to time
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MPUs"	monthly paying users, which is the number of paying players in the relevant calendar month. Average MPUs for a particular period is the average of the MPUs in each month during that period
"Nomination Committee"	the nomination committee of the Board
"PC"	personal computer
"Post-IPO RSU Plan"	the post-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Post-IPO Share Option Scheme"	the post-IPO share option scheme adopted by the Shareholders on 17 November 2014
"PRC Contractual Entities"	Xiamen Guanghuan, Xiamen Youli and Kailuo Tianxia and "PRC Contractual Entity" means any one of them
"PRC Operating Entities"	Xiamen Guanghuan and its subsidiaries and "PRC Operating Entity" means any one of them

"Pre-IPO RSU Plan"	the pre-IPO restricted share unit plan adopted by the Shareholders on 17 November 2014
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Shareholders on 17 November 2014
"Prospectus"	the prospectus dated 25 November 2014 issued by the Company
"Relevant Shareholder(s)"	Messrs. YAO Jianjun, BI Lin, SUN Zhiyan, CHEN Jianyu, LIN Jiabin, LIN Zhibin, CAI Wensheng (subsequently changed to Ms. CAI Shuting on 21 February 2019) and Ms. CHEN Yongchun, being the registered shareholders of Xiamen Guanghuan
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"RPG"	role-playing games, which involve a large number of players who interact with each other in an evolving fictional world. Each player adopts the role of one or more "characters" who develop specific skill sets (such as melee combat or casting magic spells) and control the character's actions. There are unlimited possible game scenarios where the evolution of the game world is determined by the actions of the players, and the storyline continuously evolves even while the players are offline and away from the games
"RSU(s)"	restricted share units or any one of them
"RSU Plan II"	the restricted share unit plan II adopted by the Shareholders on 28 May 2018
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shares"	ordinary share(s) in the share capital of our Company with nominal value of US$0.0000001 each
"Shareholders"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed to it in the Listing Rules
"US$", "U.S. dollars", "USD" or "United States Dollars"	United States dollars, the lawful currency of the United States of America
"XD"	X.D. Network Inc. (心動網絡股份有限公司), an online game publishing and developing company with its shares listed on the National Equities Exchange And Quotations of the PRC (Stock Code: 833897) since 4 November 2015 and delisted from 25 December 2018

DEFINITION

"Xiamen Feixin"	Xiamen Feixin Internet Technology Co., Ltd. (廈門飛信網絡科技有限公司), a direct wholly-owned subsidiary of Xiamen Feiyou and a limited company established under the laws of the PRC on 13 November 2014
"Xiamen Feiyou"	Xiamen Feiyou Information Technology Co., Ltd. (廈門飛遊信息科技有限公司), a direct wholly-owned subsidiary of Feiyu Hong Kong and a limited company established under the laws of the PRC on 24 June 2014
"Xiamen Geecap"	Xiamen Geecap Equity Investment Co., Ltd. (廈門吉相股權投資有限公司), a wholly owned subsidiary of G-bits Network Technology (Xiamen) Co., Ltd. which is an online game developing and operating company with its shares listed on the Shanghai Stock Exchange (Stock Code: 603444)
"Xiamen Guanghuan"	Xiamen Guanghuan Information Technology Co., Ltd. (廈門光環信息科技有限公司), a limited company incorporated under the laws of the PRC on 12 January 2009
"Xiamen Guangling"	Xiamen Guangling Investment Management Co., Ltd. (廈門市光翎投資管理有限公司), formerly known as Xiamen Guangyu Investment Management Co., Ltd. (廈門市光娛投資管理有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Xiamen Yidou"	Xiamen Yidou Internet Technology Co., Ltd. (廈門翼逗網絡科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 11 June 2012
"Xiamen Youli"	Xiamen Youli Information Technology Co., Ltd. (廈門游力信息科技有限公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company
"Xiamen Zhangxin"	Xiamen Zhangxin Interactive Technology Co., Ltd. (廈門掌心互動科技有限公司), an indirect wholly-owned subsidiary of the Company and a limited company established under the laws of the PRC on 27 October 2014
"Xiamen Zhangxin Internet"	Xiamen Zhangxin Internet Technology Co., Ltd. (廈門掌信網絡科技有限公司), a limited liability company established in the PRC and a connected person of the Company

In this annual report, the terms "associate", "connected person", "connected transaction" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.