2018
ANNUAL REPORT

FINGER
TANGO

FingerTango Inc.
指尖悅動控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6860

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. LIU Jie (劉傑)
Mr. WU Junjie (吳俊傑)
Mr. WANG Zaicheng (王在成)
Mr. LIU Zhanxi (劉展喜)

Independent Non-executive Directors

Ms. YAO Minru (姚敏茹)
Mr. GUO Jingdou (郭靜鬥)
Mr. DU Geyang (杜戈陽)

AUDIT COMMITTEE

Ms. YAO Minru (姚敏茹) (*Chairperson*)
Mr. GUO Jingdou (郭靜鬥)
Mr. DU Geyang (杜戈陽)

REMUNERATION COMMITTEE

Mr. GUO Jingdou (郭靜鬥) (*Chairperson*)
Mr. WU Junjie (吳俊傑)
Mr. DU Geyang (杜戈陽)

NOMINATION COMMITTEE

Mr. LIU Jie (劉傑) (*Chairperson*)
Mr. GUO Jingdou (郭靜鬥)
Mr. DU Geyang (杜戈陽)

AUTHORIZED REPRESENTATIVES

Mr. WANG Zaicheng (王在成)
Mr. WONG Yu Kit (黃儒傑)

JOINT COMPANY SECRETARIES

Mr. WANG Zaicheng (王在成)
Mr. WONG Yu Kit (黃儒傑)

LEGAL ADVISERS

As to Hong Kong law:

O'Melveny & Myers
31st Floor, AIA Central
1 Connaught Road Central
Hong Kong

As to Cayman Islands law:

Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

AUDITOR

PricewaterhouseCoopers
Certified Public Accountant
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Central
Hong Kong

REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS

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Tianhe District
Guangzhou
PRC

PRICIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
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PRINCIPAL BANK

China Merchants Bank Co. Ltd.
Guangzhou Gaoxin Branch
1 Huajing Road, Zhongshan Avenue
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INVESTOR RELATIONS

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Hong Kong

COMPANY WEBSITE

www.fingertango.com

STOCK CODE

6860

LISTING DATE

12 July 2018

Financial Summary

Condensed Consolidated Statement of Comprehensive Income

	Year ended 31 December			
	2015	2016	2017	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Revenue	275.8	984.8	1,197.2	**1,085.9**
Gross Profit	145.4	592.4	724.4	**641.6**
Profit for the Year	3.4	216.6	240.8	**155.6**
Non-IFRS Measures				
Adjusted Profit for the Year[1]	31.5	216.6	246.5	**254.3**

(1) Adjusted profit for the year excludes the effect of (i) share-based compensation to key employees; (ii) one-off listing expense. For details of adjusted profit of the year, please refer to the section headed "Management Discussion and Analysis — Non-IFRS Measures — Adjusted Profit" in the annual report.

Condensed Consolidated Balance Sheet

	As at 31 December			
	2015	2016	2017	2018
	RMB'Million	RMB'Million	RMB'Million	RMB'Million
Non-current assets	4.9	39.5	67.9	**164.7**
Current assets	207.6	547.6	857.2	**1,457.8**
Current liabilities	191.3	355.9	373.1	**286.9**
Net current assets	16.3	191.7	484.1	**1,170.9**
Total equity	21.1	231.2	552.0	**1,335.5**

Chairman's Statement

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

MARKET OVERVIEW

According to the China Gaming Industry Report 2018 jointly released by the Game Publishers Association Publications Committee (GPC) of the China Audio-video and Digital Publishing Association (中國音像與數字出版協會遊戲出版工作委員會) and Gamma Data (伽馬數據), the online game industry in China generated a total revenue of approximately RMB214.4 billion in 2018, representing a steady increase of 5.3% as compared to 2017, and the total number of game users has reached 626 million. Mobile game has maintained its mainstream position in the overall online game industry in the Reporting Period, with its revenue reaching RMB134 billion or a growth of 15.4%, and its market share in terms of total revenue has surged to 65.3%. The popularity of the Chinese mobile game market has also escalated with the number of mobile game users further increased to 605 million. With the acceleration of mobile phone upgrading and the continuous improvement of performance, coupled with the coming of 5G era, the ongoing development of the game industry is bound to benefit from the strong promotion of technology iteration.

The segment of SLG games, which we dedicate in, has shown rapid growth in recent years. SLG games have emerged as one of the fastest growing mainstream genre in China's mobile game industry with significant increase of demand from the players.

Due to the suspension of approval of online game publication by the State Administration of Press, Publication, Radio, Film and Television of the PRC from March 2018 to late 2018, China's game market fluctuated, resulting in an overall decline of the market performance. At present, the abovementioned suspension has been lifted and it is expected to unleash the growth momentum of the previously stressed market.

BUSINESS REVIEW

We are a leading mobile game publisher and a pioneer in the SLG game publishing industry in China. Our outstanding ability in lengthening the lifecycle of games and enhancing the overall conversion rate differentiates us from other players in the industry.

The Group's revenue in the Reporting Period was approximately RMB1,085.9 million, representing a decrease of approximately 9.3% as compared to the year ended 31 December 2017, primarily due to adjustment in game launching plan in view of the suspension of approval of online game publication. We are conducting comprehensive tests for the new titles launched in 2018 to ensure their sound performance upon official launch. In the second half of 2018, we have launched several new games as planned and these new games are still in the promotion period and the incubation stage of the player base. Growth momentum driven by the new titles and the contribution to revenue is expected to be seen in 2019. With the lifting of the above-mentioned suspension, we have acquired six new licensed games in the first quarter in 2019, building substantial momentum for the Company to further issue new games and continuously create new income sources.

Chairman's Statement

During the Reporting Period, the profit attributable to our shareholders was approximately RMB155.6 million, as compared to RMB240.8 million for the year ended 31 December 2017. While excluding the impact of (i) one-off listing expenses of RMB20.8 million, and (ii) share-based compensation to key employees of RMB77.9 million, the adjusted profit in the Reporting Period recorded RMB254.3 million, representing an increase of 3.2% as compared to the year ended 31 December 2017.

In 2018, despite a volatile game market caused by the suspension of approval of online game publication in China, we have achieved sound performance and steady business indicators throughout the Reporting Period, leveraging on SLG's inherent advantage of long life-cycle, the Company's strong operating capability and the extensive industry experience of our senior management team. Four titles have generated an average monthly gross billings of RMB13 million or above in the Reporting Period. *Tank Frontline* (坦克前線), our signature title, is still popular after more than 50 months' operation and has achieved an average monthly gross billings of RMB33 million or above in the year ended 31 December 2018. Our other major games have also maintained their long-lasting popularity since the official launch: *Super Fleet* (超級艦隊) for more than 40 months, *Romance of Stars* (星辰奇緣) for more than 35 months and *My Duty* (我的使命) for more than 24 months. We constantly launched updated versions throughout the year and introduced iterative calculations and new gameplay. The games have maintained robust lifecycles and continued to generate steady revenue for us over a longer period of time.

The level of game monetization has continued to reflect our strengths and keen ability. The average revenue per month per paying user ("**ARPPU**") saw a growth of 11.0% to RMB437 and the total number of accumulative registered users has reached 150 million during the Reporting Period. The enormous user base enables us to better understand player preferences and market changes through strong data analytics ability, so as to launch new games with higher popularity in the market, and to conduct targeted marketing with more cost-effective strategies.

In 2018, we broke through the reliance on single long-cycle products and broadened our game category whilst focusing on the SLG segment. During the Reporting Period, in addition to SLG games which is our targeted segment, we launched two ARPG games, namely *Windy World* (風色世界) and *Light of the King* (王者之光), both of which are licensed exclusively by the relevant game developers. We have built a richer and more diverse game portfolio. *Enthroned* (任我為王), upon its official launch, has gained positive feedback on many download platforms and app stores. And *Windy World* (風色世界) was awarded the "Most Popular MMO Game" by Mobile Hardcore Alliance (硬核聯盟), a mobile game platform in China. The number of players has continued to rise with consistent praises and favourable comments. *Windy World* (風色世界) and *Light of the King* (王者之光), both launched in the second half of 2018, were produced by well-known game developers. Rich game experience and diverse and innovative gameplay have won them top download ranking in multiple lists. Our strategic advantage in the symbiotic partnership with reputable developers has continued. These newly launched games are still in the incubation stage of the player base, and we have allocated resources to continuously roll out marketing and promotion activities. The unleashing of growth momentum is expected to be seen in 2019.

It is a constituent of our strategies to proactively explore the overseas market, expand the international player base and grasp growth opportunities. In December 2018, United Front, the overseas version of one of our major SLG games *My Duty* (我的使命) has been officially launched on Google Play Store and was recommended globally (excluding Japan). As FingerTango's first SLG to go abroad, United Front comes into vogue in various countries with its ranks rising rapidly, winning high recognition from the market and marking significant progress for our overseas expansion strategy with initial result accomplished.

During the Reporting Period, we worked with ambition and total dedication to strive for excellence. The Company has been well recognized by the market and the industry, earning itself the awards as set out below:

Organization	Award	Time
Mobile Hardcore Alliance	"Most Anticipated Emerging Enterprise"	December
OPPO	"Excellent Partner"	December
Tencent Myapp	"Emerging Partner"	November
Tencent	"Partner of the Year"	November
Samsung App Store	"Most Innovative Partner"	March

OUTLOOK FOR 2019

2019 will be full of challenges and opportunities. On the one hand, the rapid development and technical iteration of mobile phone and communication technology will be more conducive to the application and popularity of SLG and other games on mobile phones, further driving the continued growth of China's mobile game publishing industry. On the other hand, market competition will become increasingly fierce.

According to the China Gaming Industry Report 2018, as the average income of PRC citizens who pursue richer and better lifes continues to rise, user demand for games increases and the game industry achieves sustainable development, and the market size is expected to further maintain a positive growth. But at the same time, user demand is changing, and the difficulty of user acquisition is increasing. The competition in the existing market requires market players to provide more and more refined game products. The entry barrier for new products is on a rise.

In terms of policies, due to the suspension of approval of online game publication in China in 2018, the earnings and growth of the domestic game companies were under pressure. At the end of 2018, the Publicity Department of the Central Committee of the communist Party of China major positive news including the lifting of the above-mentioned suspension and releasing the first batch of approved games. It is expected that the growth momentum of the game industry will be unleashed in 2019, ushering in a new development boom.

Adherence to and focus on long lifecycle products, the concept of continuous operation with long-term flow, and constant offer of new gameplay to extend product lifecycle — these are our initial intention and our advantage and development strategy. In the face of a complex and changing market environment, we will always insist on developing products with the first-class technology, and extending the lifecycle of our games with the continuous enriched and enhanced player experience, thereby improving the ability to monetization and continuing to generate stable revenue for the Company.

For the new games launched in 2018, we will continuously analyze gaming habits and player activities, thereby launching new features and frequent version updates, introducing new gameplay, levels and characters, etc., adding more social and gaming function, and providing a rich variety of virtual items to enhance players' participation. Furthermore, we will optimize the games in every aspect in order to bring in refined game experience. Leveraging these initiatives, we aim to unleash growth momentum that will contribute to the Company's revenue in a longer period of time.

At the same time, we are conducting comprehensive tests for the new titles to be launched in 2019 and optimizing product launch strategies and plans. We are enhancing gameplay, characters, scenes and technical depth combining our big data analytics capabilities we have been focusing in long-term player data, gaming time, level-up, in-game purchase amount and user turnover rate, etc. These initiatives are being performed to ensure sound performance after the official launch. We expect the new titles will be available timely in 2019 to meet the eager expectation of the players.

SLG games have a vast player base abroad, as overseas players are highly receptive to SLG. *United Front*, our first SLG to go abroad launched in December 2018, was recommended by Google Play Store globally (excluding Japan). While still in promotion stage, this title is well-received by players in countries such as France and Germany. We will continue to invest to gradually promote it in more markets, popularize it among all player levels and expand the player base. We will also increase the game exposure in multiple aspects, comprehensively analyze the player behaviour and continue targeted optimization in game experience to upgrade and update. At the same time, we will allocate resources to recruit more talents with experience in the overseas game market, and to collaborate with outstanding teams with deep international promotion experience. In the meantime, we are preparing for more global products and strategic layout, so as to proactively promote the strategy of overseas business development.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to all our staff and the management team for their commitment for excellence and valuable contribution. I would also like to thank all of our shareholders, users and business partners, and wish for their continuous support in the future. Looking forward, we will continue to steer the Group to a more modernized and sophisticated level of operation, through which we aspire to turn to a new chapter in the Group's development.

LIU Jie
Chairman, Chief Executive Officer
and Executive Director

Management Discussion and Analysis

The following table sets forth our annual condensed consolidated statements of comprehensive income for the years ended 31 December 2018 and 2017, respectively:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	1,085,931	1,197,230
Cost of Revenue	(444,306)	(472,853)
Gross Profit	641,625	724,377
Selling and marketing expenses	(324,974)	(389,771)
Administrative expenses	(102,757)	(29,168)
Research and development expenses	(54,600)	(42,020)
Other income	6,292	7,788
Other gains/(losses), net	2,398	(294)
Operating profit	167,984	270,912
Finance income	8,647	1,692
Profit before income tax	176,631	272,604
Income tax expense	(21,036)	(31,812)
Profit for the year attributable to owners of the Company	155,595	240,792
Non-IFRS Measures		
Adjusted profit attributable to owners of the Company	254,346	246,538

Revenue

The Group's revenue in the Reporting Period was approximately RMB1,085.9 million, representing a decrease by approximately 9.3% or RMB111.3 million as compared to the year ended 31 December 2017. The decrease was primarily due to adjustment in our game launching plan in view of the suspension of approval of online game publication. We are conducting comprehensive tests for the new titles being launched in 2018 to ensure their sound performance after official launch. In spite of a volatile game market in China in 2018, we have launched several new games during the Reporting Period. Growth momentum driven by the new titles is expected to be seen in 2019.

With respect to revenue categorized by method of publication, the Group's revenue generated from our self-publishing games remained relatively stable at approximately RMB520.6 million, representing 47.9% of the total revenue as compared to 47.7% for the year ended 31 December 2017. The Group's revenue generated from our co-publishing games was approximately RMB565.3 million, representing 52.1% of the total revenue.

Cost of Revenue

The cost of revenue in the Reporting Period was approximately RMB444.3 million, representing a decrease of approximately 6.0% or RMB28.5 million as compared to the year ended 31 December 2017, which is largely in line with our revenue trend.

Other Income

During the Reporting Period, other income was approximately RMB6.3 million, representing a decrease of approximately 19.2% or RMB1.5 million as compared to the year ended 31 December 2017, primarily due to: (i) the decrease in government grant; and (ii) the decrease in interest income of the short-term deposit over 3 months.

Other Gains/(Losses), net

During the Reporting Period, other gains, net in 2018 increased to RMB2.4 million from a net loss of RMB0.3 million in 2017, primarily due to the increase from fair value changes on financial assets at fair value through profit or loss.

Finance Income

During the Reporting Period, finance income was approximately RMB8.6 million, representing an increase of approximately 411.1% or RMB7.0 million as compared to the year ended 31 December 2017. The increase was mainly from interest income of the short-term deposit with maturity less than 3 months.

Selling and Marketing Expenses

The selling expenses in the Reporting Period were approximately RMB325.0 million, reduced by approximately 16.6% or approximately RMB64.8 million as compared to the year ended 31 December 2017. It constituted 29.9% of the total revenue, representing a reduction from 32.6% for the year ended 31 December 2017. The decrease was primarily due to adjustment in our game launching plan, and new titles were mainly launched in the second half of 2018.

Administrative Expenses

The administrative expenses of the Group in the Reporting Period were approximately RMB102.8 million, as compared to approximately RMB29.2 million for the year ended 31 December 2017. The rise was mainly due to the one-off listing expenses and share-based compensation to key employees.

Research and Development Expenses

The research and development expenses of the Group in the Reporting Period were approximately RMB54.6 million, representing an increase of approximately 29.9% or RMB12.6 million as compared to the year ended 31 December 2017. It was mainly because the increase in share-based compensation to key employees, which was partially offset by the decrease of outsourcing research and development expense.

Income Tax Expense

The income tax expense in the Reporting Period was approximately RMB21.0 million, representing a decrease of 33.9% or approximately RMB10.8 million as compared to the year ended 31 December 2017. It was a consequent result of a decreased taxable income.

Profit in the Reporting Period

The profit attributable to owners of the Company in the Reporting Period was RMB155.6 million, dropped by 35.4% as compared to RMB240.8 million for the year ended 31 December 2017, which was a consequent result of: (i) one-off listing expenses of RMB20.8 million and share-based compensation to key employees of RMB77.9 million; (ii) adjustment in game launching plan, and new titles were mainly launched in the second half of 2018, and as a result, growth momentum driven by the new titles is expected to be seen in 2019.

Non-IFRS Measures — Adjusted Profit

The adjusted profit in the Reporting Period, adjusted by excluding the impact from one-off listing expenses and share-based compensation to key employees, was RMB254.3 million, increased by 3.2% as compared to RMB246.5 million last year.

The following table sets out the adjusted profit as well as the calculation process based on non-IFRS for the Reporting Period:

	For the year ended 31 December	
	2018	2017
	RMB'Million	RMB'Million
Profit for the year	155.6	240.8
Add:		
Share-based compensation	77.9	—
One-off listing expenses	20.8	5.7
Adjusted profit for the year	254.3	246.5

Directors' Report

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 ANALYSIS OF OPERATIONS

The Company is an investment holding company. The Group is a leading mobile game publisher and a pioneer in the SLG game publishing industry in China. Details of the principal activities of the principal subsidiaries of the Company are set out in note 37 to the financial statements. An analysis of the Group's revenue and operating profit for the Reporting Period by principal activities is set out in the section headed *"Management Discussion and Analysis"* in this annual report.

BUSINESS REVIEW

A fair review of the Group's business during the year, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year and an indication of likely future developments in the Group's business, could be found in the sections headed *"Chairman's Statement", "Management Discussion and Analysis"* and *"Corporate Governance Report"* in this annual report. In addition, a discussion on relationships with its key stakeholders is included in the section headed *"Management Discussion and Analysis"*. The review and discussion form part of this directors' report.

RESULTS AND DIVIDEND

The consolidation results of the Group for the year ended 31 December 2018 are set out on pages 81 to 86 of this annual report.

The Board does not recommend payment of a final dividend for the year ended 31 December 2018.

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 31 May 2019 (Friday) to 5 June 2019 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 30 May 2019 (Thursday).

FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past four financial years is set out on page 4 of this annual report. This summary does not form part of the audited consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Reporting Period are set out in Note 14 to the consolidated financial statements on page 125 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environment protection and has not noted any material incompliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. Further details of the Group's environmental policies and performance will be disclosed in the environmental, social and governance report of the Company for the year ended 31 December 2018 contained in this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in Note 24 to the consolidated financial statements on pages 137 to 138 of this annual report.

SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group and of the Company during the year ended 31 December 2018 are set out in Note 24, Note 26 and Note 36 to the consolidated financial statements on pages 137 to 138, page 139 and pages 149 to 150, respectively of this annual report.

DISTRIBUTABLE RESERVES

The Company's total distributable reserves as at 31 December 2018 amounted to Nil.

BORROWINGS

As at 31 December 2018, the Company did not have any bank borrowings.

FOREIGN EXCHANGE RISK

The income of the Group was principally and mostly denominated in RMB. The Group will continue to monitor its foreign exchange risk exposure to best preserve the Group's cash value. As at 31 December 2018, the Group did not enter into any hedging transactions.

PLEDGE OF ASSETS

As at 31 December 2018, none of the Group's assets was pledged.

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

During the year ended 31 December 2018, 18,278,000 ordinary shares were repurchased on the Stock Exchange and the repurchased ordinary shares were cancelled on 24 December 2018 and 21 January 2019 respectively. After the Reporting Period, 7,150,000 ordinary shares were repurchased, and of which 5,335,000 repurchased ordinary shares were cancelled on 21 January 2019.

The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of purchase in 2018	Number of Shares purchase	Purchase price per Share Highest (HKD)	Lowest (HKD)	Aggregate consideration (excluding expenses) (HKD)
November 2018	5,214,000	1.77	1.57	8,645,770
December 2018	13,064,000	1.83	1.63	22,355,770
Total	18,278,000			31,001,540

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

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

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group has no significant investment, acquisition or disposal of subsidiaries, associates and joint ventures during the Reporting Period.

DISCLOSEABLE TRANSACTIONS IN RELATION TO INVESTMENT IN FUND

On 11 December 2018, the Company has submitted a subscription application form to the Administrator of the Fund under which the Company has committed to subscribe for Class L Shares of the Fund for an aggregate amount of HK$100 million on the terms and conditions of the Private Placement Memorandum. Details of the transaction have been set out in the announcement of the Company dated 11 December 2018.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

MATERIAL EVENTS AFTER THE REPORTING PERIOD

As at the date of this annual report, there were no significant events after the Reporting Period.

USE OF PROCEEDS FROM THE IPO

Upon completion of the Initial Public Offering, the Company raised gross proceeds of approximately HKD1,035,000,000. As at 31 December 2018, the proceeds raised by the Company from the IPO have not been utilized. During the Period, such net proceeds were applied in accordance with the proposed applications as set out in the section headed *"Future Plan and Use of Proceeds"* in the Company's prospectus dated 26 June 2018 (the "**Prospectus**"). In 2019, the Company will use the proceeds raised from the IPO in accordance with its development strategies, market conditions and intended use of such proceeds.

DIRECTORS

The Directors of the Company from the Listing Date and up to the date of this report were:

Directors	Position
Mr. Liu Jie (劉傑)	Executive Director, chairman of the Board and chief executive officer
Mr. Wu Junjie (吳俊傑)	Executive Director and vice president
Mr. Wang Zaicheng (王在成)	Executive Director and joint company secretary
Mr. Liu Zhanxi (劉展喜)	Executive Director and chief financial officer
Mr. Guo Jingdou (郭靜鬥)	Independent non-executive Director
Ms. Yao Minru (姚敏茹)	Independent non-executive Director
Mr. Du Geyang (杜戈陽)	Independent non-executive Director

Biographical details of the Directors and the senior management of the Group are set out on pages 33 to 36 in this annual report. Upon specific enquiry by the Company, there has been no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B of the Listing Rules since the Listing Date.

All Directors are appointed for a specific term of three years which may be extended as each and the Company may agree, subject to retirement by rotation and re-election at the annual general meeting ("AGM") in accordance with the articles of association of the Company. Article 84 of the articles of association of the Company provides that at each AGM, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for a term of three years commencing from 19 June 2018, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of our independent non-executive Directors has signed an appointment letter with the Company for a term of three years, with effect from 19 June 2018.

None of the Directors has entered into any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

CONTRACT WITH CONTROLLING SHAREHOLDERS

Other than disclosed in this annual report and in the section headed *"Significant Related Party Transactions"* in Note 31 to the consolidated financial statements contained in this annual report, no contract of significance was entered between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the year ended 31 December 2018 or subsisted at the end of the year and no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries was entered into during the year ended 31 December 2018 or subsisted at the end of the year.

DIRECTOR'S INTERESTS IN TRANSACTIONS, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" in this annual report, none of the Directors nor any entity connected with the Directors had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2018.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' emoluments and emoluments of the five highest paid individual in the Group are set out in Note 34(a) and Note 7 to the consolidated financial statements on pages 146 to 148 and pages 118 to 119 of this annual report.

For the year ended 31 December 2018, no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments for the year ended 31 December 2018.

Except as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2018, by our Group to or on behalf of any of the Directors.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2018, none of the Directors or their respective associates (as defined in the Listing Rules) had any interest in a business that competed or was likely to compete, either directly or indirectly, with the business of the Group, other than being a director of the Company and/or its subsidiaries.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

Save as disclosed in this annual report, the Company does not have any disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

DEED OF NON-COMPETITION

Each of the Controlling Shareholders entered into the deed of non-competition ("**Deed of Non-competition**") in favour of the Company, pursuant to which the Controlling Shareholders have irrevocably, jointly and severally given certain non-competition undertakings to the Company. Details of the Deed of Non-competition are set out in the section headed *"Relationship with our Controlling Shareholders — Deed of Non-competition"* in the Prospectus.

During the Reporting Period, no written notice of any New Opportunity (as defined in the Deed of Non-competition) had been received by the Company. The Controlling Shareholders confirmed that they have complied with the Deed of Non-competition for the year ended 31 December 2018 (the "**Confirmation**"). Upon receiving the Confirmation, the independent non-executive Directors of the Company have reviewed the same as part of the annual review process. In view of the above, the independent non-executive Directors have confirmed that, as far as they can ascertain, there is no breach by any of the Controlling Shareholders of the non-competition undertakings in the Deed of Non-competition given by them.

MANAGEMENT CONTRACTS

Other than the Directors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the year ended 31 December 2018.

MATERIAL LEGAL PROCEEDINGS

The Group was not involved in any material legal proceeding during the year ended 31 December 2018.

LOAN AND GUARANTEE

During the year ended 31 December 2018, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, senior management of the Company, the Controlling Shareholders or their respective connected person.

RESTRICTED SHARE UNIT (THE "RSU") SCHEME

We have adopted the RSU Scheme (the "**RSU Scheme**") with a view to formalize our grant and our proposal to grant share incentives to eligible management and employees of our Group. The RSU Scheme was approved and adopted by the Board on 16 March 2018, the principal terms of which are set out in "*Statutory and General Information — D. RSU Scheme and Share Option Scheme — 1. RSU Scheme*" in Appendix IV of the Company's Prospectus.

We have appointed The Core Trust Company Limited as the trustee (the "**Trustee**") to assist with the administration and vesting of the RSUs granted pursuant to the RSU Scheme. A total of 75,000,000 Shares (as adjusted after share sub-division conducted on 22 March 2018) were issued to Super Fleets Limited (the "**RSU Nominee**"), who hold the shares for the benefit of eligible participants pursuant to the RSU Scheme. No further Shares will be allotted and issued to the RSU Nominee or the trustee for the purpose of the RSU Scheme (other than pursuant to sub-division, reduction, consolidation, reclassification or reconstruction of the share capital of the Company in accordance with the RSU Scheme). As the RSU Scheme does not involve the grant of options to subscribe for any new Shares of the Company, it is not required to be subject to the provisions under Chapter 17 of the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "**Scheme**") pursuant to a resolution passed on 19 June 2018 which will be valid for 10 years from the adoption date for the purposes of (i) motivating the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group. Further details of the Scheme are set forth in the section headed "*Statutory and General Information — D. RSU Scheme and Share Option Scheme*" in Appendix IV to the Prospectus.

The new Shares which may be issued by our Company upon exercise of all share options to be granted under the Share Option Scheme and other share option schemes of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 200,000,000 Shares, (i.e. 10% of the aggregate of the Shares in issue on the Listing Date assuming the Over-allotment Option is not exercised).

The total number of Shares issued and to be issued upon the exercise of the options granted to or to be granted to each eligible person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each grantee of the Option (the "**Grantee**") as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme. Options may be vested over such period(s) as determined by the Board in its absolute discretion subject to compliance with the requirements under any applicable laws, regulations or rules.

The exercise price ("**Exercise price**") shall be such price determined by our Board in its absolute discretion at the time of the grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option), but in the case that any Share would be allotted and issued to a Grantee upon the exercise of an Option in accordance with the terms of the Share Option Scheme, the Exercise Price shall be at least the higher of (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for business of dealing in securities; (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

For the year ended 31 December 2018, no share option was granted, exercised, cancelled or lapsed since its adoption and there is no outstanding share option under the Share Option Scheme.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SECURITIES

As at 31 December 2018, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required 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 he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to herein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interest in Shares or Underlying Shares of our Company

Name	Capacity/Nature of Interest	Number of shares held/interested	Approximate percentage of Interest
Mr. Liu Jie[(2)]	Interest in a controlled corporation	1,107,837,500(L)[(1)]	55.66%
Mr. Zhu Yanbin[(3)]	Interest in a controlled corporation	214,488,000(L)[(1)]	10.77%
Mr. Wu Junjie[(4)]	Interest in a controlled corporation	103,545,000(L)[(1)]	5.20%
Mr. Wang Zaicheng[(5)]	Interest in a controlled corporation	14,791,500(L)[(1)]	0.74%

Notes:

(1) The letter "L" denotes the person's long position in our Shares.

(2) LJ Technology Holding Limited, a beneficial owner 1,107,837,500 shares, is wholly-owned by Mr. LIU Jie. Thus, Mr. LIU Jie is deemed to be interested in the same number of Shares in which LJ Technology Holding Limited is interested by virtue of the SFO.

(3) ZYB Holding Limited, a beneficial owner 214,488,000 shares, is wholly-owned by Mr. ZHU Yanbin. Thus, Mr. ZHU Yanbin is deemed to be interested in the same number of Shares in which ZYB Holding Limited is interested by virtue of the SFO.

(4) ACERY Holding LIMITED, a beneficial owner 103,545,000 shares, is wholly-owned by Mr. WU Junjie. Thus, Mr. WU Junjie is deemed to be interested in the same number of Shares in which ACERY Holding is interested by virtue of the SFO.

(5) KW Technology Holding Limited, a beneficial owner 14,791,500 shares, is wholly-owned by Mr. WANG Zaicheng. Thus, Mr. WANG Zaicheng is deemed to be interested in the same number of Shares in which KW Technology Holding Limited is interested by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2018, the following persons (other than the interest of the Directors or chief executives of the Company disclosed above) who had an interest or short positions in the ordinary shares and underlying shares which fall to be disclosed to the Company and Stock Exchange under the provisions of Division 2 or 3 or Part XV of the SFO which were recorded in the register required to be kept under section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of shares held/interested	Approximate percentage of Interest
LJ Technology Holding Limited[2]	Beneficial owner	1,107,837,500(L)[1]	55.66%
ZYB Holding Limited[3]		214,488,000(L)[1]	10.77%
ACERY Holding LIMITED[4]		103,545,000(L)[1]	5.20%

Notes:

(1) The letter "L" denotes the person's long position (as defined under Part XV of the SFO) in our Shares.

(2) LJ Technology Holding Limited is wholly-owned by Mr. LIU Jie. Thus, Mr. LIU Jie is deemed to be interested in the same number of Shares in which LJ Technology Holding Limited is interested by virtue of the SFO.

(3) ZYB Holding Limited is wholly-owned by Mr. ZHU Yanbin. Thus, Mr. ZHU Yanbin is deemed to be interested in the same number of Shares in which ZYB Holding Limited is interested by virtue of the SFO.

(4) ACERY Holding LIMITED is wholly-owned by Mr. WU Junjie. Thus, Mr. WU Junjie is deemed to be interested in the same number of Shares in which ACERY Holding is interested by virtue of the SFO.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option or any options which may be granted under the Share Option Scheme are not exercised), have interests or short positions in Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the sections headed "RSU Scheme" and "Share Option Scheme", at no time during the Reporting Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2018, the percentages of purchases from the Group's largest supplier and five largest suppliers were 13.8% and 52.4%, respectively. The percentages of sales attributable to the Group's largest customer and the five largest customers were 29.1% and 61.8%, respectively.

As far as the Directors are aware, none of the Directors, their close associates (as defined under the Listing Rules) nor any substantial shareholders has any beneficial interest in the five largest suppliers or customers of the Group.

EMPLOYEE REMUNERATION AND RELATIONS

As at 31 December 2018, the Group had a total of 390 employees, comparing to 227 employees as at 31 December 2017. The Group provides employees with competitive remuneration and benefits, and the Group's remuneration policies are formulated according to the assessment of individual performance and are periodically reviewed. The Group provide training programs to employees, including new hire training for new employees and continuing technical training primarily for our research and development team and game operation team to enhance their skill and knowledge.

RETIREMENT BENEFITS SCHEME

All of our employees are in PRC and they are members of the state-managed retirement benefits scheme operated by the PRC government. Our employees are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the pension obligations of the Company are set out in Note 7 to the consolidated financial statements in this annual report.

CONNECTED TRANSACTIONS

During the year ended 31 December 2018, no related party transactions disclosed in note 31 to the financial statements constituted a connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules. The Company has complied with the disclosure requirements set out in Chapter 14A of the Listing Rules.

Contractual Arrangements

Our Group conducts the mobile game publishing business through our PRC Operating Entities in the PRC. As PRC laws and regulations, or the implementation of those laws and regulations by the relevant government authorities, generally prohibit foreign ownership in the mobile game publishing industry in the PRC, our Company is unable to own or hold any direct or indirect equity interest in our PRC Operating Entities. The Contractual Arrangements, through which we are able to exercise control over and derive the economic benefits from our PRC Operating Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

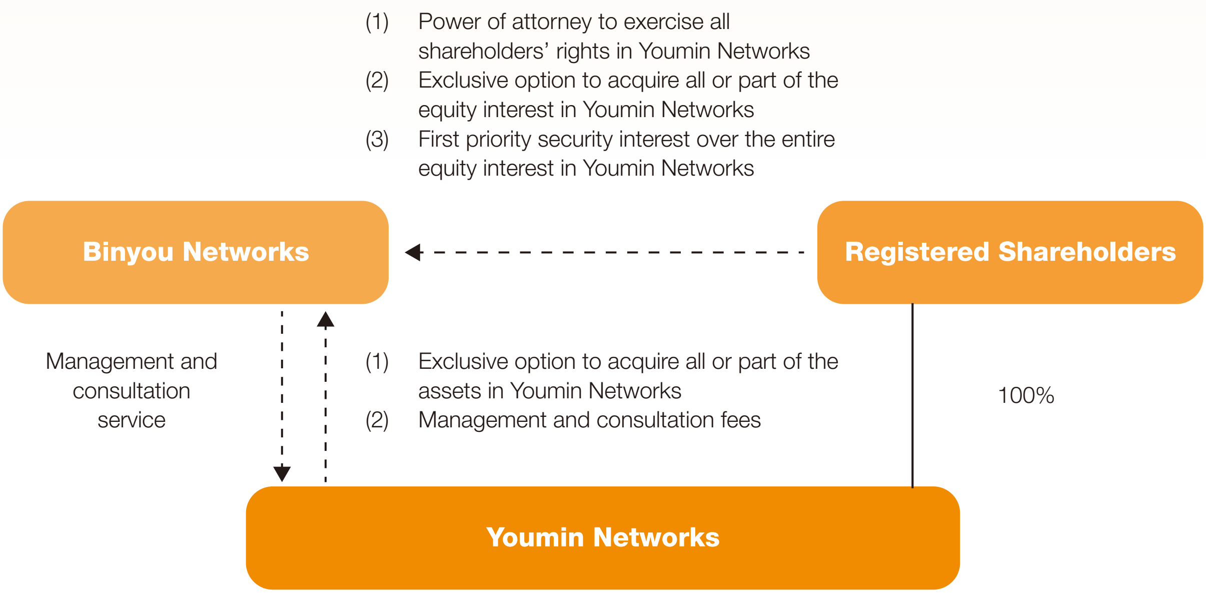
Investment activities in the PRC by foreign investors are mainly governed by the Guidance Catalog of Industries for Foreign Investment (the "**Catalog**"), which was promulgated and is amended from time to time jointly by the MOFCOM and the NDRC. The Catalog divides industries into four categories in terms of foreign investment, including "encouraged," "restricted" and "prohibited," and all industries not listed under any of these categories are deemed to be "permitted." As confirmed by the Company's PRC legal advisers, according to the Catalog, the mobile game publishing business that our Company currently operates falls into the internet cultural business which is considered "prohibited," and relates to the value-added telecommunications services which is considered "restricted."

Furthermore, according to the Regulations for the Administration of Foreign-Invested Telecommunications Enterprises, which were issued on 11 December 2001 by the State Council and amended on 10 September 2008 and February 6, 2016 foreign investors are not allowed to hold more than 50% of the equity interests of a company providing value-added telecommunications services, including ICP services. A foreign investor who invests in a value-added telecommunications businesses 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**").

As advised by the Company's PRC legal advisers, as at 31 December 2018, no applicable PRC laws, regulations or rules had provided clear guidance or interpretation on the Qualification Requirement, and there was no update to the Qualification Requirement.

In order for the Company to be able to carry on its businesses in China, the Group has in place the Contractual Arrangements between Binyou Networks, on one hand, Youmin Networks and its registered shareholders on the other hand, which enable the Company to exercise control over the PRC Operating Entities, and to consolidate the financial results of the PRC Operating Entities in the results of the Company under IFRSs as if they were wholly-owned subsidiaries of the Company.

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to our Group as stipulated under the Contractual Arrangements:



Summary of the major terms of the structured contracts under the Contractual Arrangements

The following sets out a summary of the major terms of the structured contracts under the Contractual Arrangements which were in place during the year ended 31 December 2018:

1. Exclusive Option Agreement dated 24 March 2018, pursuant to which Binyou Networks (or its designee) has an irrevocable and exclusive right to purchase from the Registered Shareholders all or any part of their equity interests in Youmin Networks, and an irrevocable and exclusive right to purchase from Youmin Networks all or any part of its assets, at a nominal price, unless the relevant government authorities request that another amount be used as the purchase price and in which case the purchase price shall be such amount;

2. Exclusive Business Cooperation Agreement dated 24 March 2018, pursuant to which Youmin Networks agreed to engage Binyou Networks as its exclusive provider of business support, technical and consulting services, including technology services, network support and maintenance, research and development, employee training, business and management consultancy, intellectual property licensing, equipment leasing, market research and other services, in exchange for service fee;

3. Share Pledge Agreement dated 24 March 2018, pursuant to which the Registered Shareholders pledged all of their equity interests in Youmine Networks to Binyou Networks as collateral security for all of their payments due to Binyou Networks and to secure performance of all obligations of Youmin Networks and the Registered Shareholders under the Contractual Arrangements;

4. Powers of Attorney dated 24 March 2018 executed by each Registered Shareholders, appointing Binyou Networks, or any person designated by it, as its exclusive agent and attorney to act on their behalf on all matters concerning Youmin Networks and to exercise all of their rights as registered shareholders of Youmin Networks;

5. Spouse Undertaking dated 24 March 2018 signed by the spouse of each Registered Shareholders.

During the year ended 31 December 2018, (i) there were no new contractual arrangements entered into, renewed or reproduced between the Group and the PRC Operating Entities, (ii) there were no material changes in the Contractual Arrangements or the circumstances under which they were adopted, and (iii) none of the structured contracts under the Contractual Arrangements mentioned above has been unwound as none of the restrictions that led to the adoption of structured contracts under the Contractual Arrangements have been removed.

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
Youmin Networks	Limited liability company/PRC	Mr. Liu, Mr. Zhu, Mr. Wu, Zhuhai Sangu and Zhuhai Jugu hold 68.86%, 13.49%, 2.08%, 10.38% and 5.19% of the equity interest of Youmin Networks respectively	Internet culture operations
Kuoyou Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Yiguo Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Feimiao Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Shanghai Langxianjing	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Binjie Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Jieba Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Guangzhou Langxianjing	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations
Miyuan Networks	Limited liability company/PRC	100% by Youmin Networks	Internet culture operations

The Board considers that the above PRC Operating Entities are significant to the Group in the view that (i) they have obtained the Online Culture Operating Permit, which is essential to the operation of all our business, and the ICP License and (ii) most of our intellectual property rights, including software copyrights, trademarks, patents and domain names, are held by Youmin Networks.

Revenue and assets subject to the structured contracts under the Contractual Arrangements

For the year ended 31 December 2018, the services provided by Binyou Networks to the PRC Operating Entities, including the provision of business support, technical and controlling services, amounted to approximately RMB0.3 million. The revenue and the total asset value of the PRC Operating Entities subject to the Contractual Arrangements amounted to approximately RMB0.3 million for the year ended 31 December 2018 and approximately RMB1.7 million as at 31 December 2018, respectively.

Risk associated with the Contractual Arrangements and the actions taken to mitigate the risks

Risks associated with Contractual Arrangements	Mitigation actions taken by the Group
1. Current PRC laws and regulations impose certain prohibitions on foreign ownership of companies that engage in the Internet cultural business, such as mobile game publishing. If the PRC government finds that the agreements that establish the structure for operating our businesses in China do not comply with applicable PRC laws and regulations, or if these regulations or their interpretations change in the future, the Company could be subject to sever consequences, including the nullification of the Contractual Arrangements and the relinquishment of its interest in our PRC Operating Entities.	Pursuant to the relevant exclusive business cooperation agreement under the Contractual Arrangements, at any time after the date of such agreements, in the event of any promulgation or change of any law, regulation or rule of China or any interpretation or applicable change of such laws, regulations or rules, the following agreements shall be applicable: If the economic interests of any party under the agreements suffer a significant adverse effect directly or indirectly due to above change of laws, regulations or rules, the agreements should continue to operate pursuant to the original terms. Each of the parties shall obtain a waiver for complying with such change or rule via all legal channels. If any adverse effect on the economic interests of any party may not be eliminated according to the relevant agreement, upon the receipt by the other parties of such notice from the affected party, all the parties shall promptly discuss and make all necessary modification to the agreements to preserve the economic interests of the affected party under the agreement.

Risks associated with Contractual Arrangements	Mitigation actions taken by the Group
2. The Contractual Arrangements may not be as effective in providing operational control as direct ownership. The PRC Operating Entities may fail to perform their obligations under our Contractual Arrangements.	According to the relevant powers of attorney, share pledge agreements and exclusive business cooperation agreements under the Contractual Arrangements, the arbitration tribunal may decide (i) compensation for the equity interests or property ownership of the PRC Operating Entities or their shareholders, or (ii) enforceable remedy or to demand bankruptcy of the PRC Operating Entities or their shareholders for relevant business or enforceable asset transfer. Any party is entitled to request a competent court to execute the arbitration award when it comes into effect.
3. The Company may lose the ability to use and enjoy assets held by its PRC Operating Entities that are material to its business operations if its PRC Operating Entities declare bankruptcy or become subject to a dissolution or liquidation proceeding.	Pursuant to the relevant exclusive option agreement under the Contractual Arrangements, in the event of a mandatory liquidation required by the laws of the PRC, the relevant PRC Operating Entities shall sell all of their assets and any residual interest through a non-reciprocal transfer to the extent permitted by the laws of the PRC to Binyou Networks or another qualifying entity designated by Binyou Networks, at the lowest selling price permitted by applicable laws of the PRC.
4. The ultimate shareholders of the Company's PRC Operating Entities may have conflicts of interest with them, which may materially and adversely affect its business.	The shareholders of the PRC Operating Entities have undertaken to Binyou Networks that during the period when the Contractual Arrangements remain effective, (i) unless otherwise agreed by Binyou Networks in writing, the relevant shareholder would not, directly or indirectly (either on his own account or through any natural person or legal entity) participate, be interested in, engage in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may potentially be in competition with the businesses of the PRC Operational Entities or any of its affiliates and (ii) any of his actions or omissions would not lead to any conflict of interest between him and Binyou Networks (including but not limited to its shareholders). Furthermore, in the event of the occurrence of a conflict of interest where Binyou Networks has the sole absolute discretion to determine whether such conflict arises, he agrees to take any appropriate actions as instructed by Binyou Networks.

Risks associated with Contractual Arrangements	Mitigation actions taken by the Group
5. Our Contractual Arrangements may be subject to scrutiny by the PRC tax authorities. A finding that the Company owe additional taxes could substantially reduce its consolidated net income and the value of the investments.	As advised by the Company's PRC legal advisers, who took the view that the Contractual Arrangements will not be challenged by the PRC tax authorities or other government authorities unless the PRC tax authorities determine that such transactions are not conducted on an arm's length basis, provided that Binyou Networks and the PRC Operating Entities implement the Contractual Arrangements in accordance with the terms of the structured contracts.

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.

Requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions)

As advised by the Company's PRC legal advisers, requirements related to the Contractual Arrangements (other than relevant foreign ownership restrictions) include:

i. Pursuant to Article 52 of the PRC Contract Law, a contract is void under any of the following five circumstances: (i) the contract is concluded through the use of fraud or coercion by one party and thereby 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 or administrative regulations. As advised by the Company's PRC legal advisers, the relevant terms of the Contractual Arrangements do not fall within any of the aforementioned five circumstances, and in particular, would not be deemed as "concealing an illegitimate purpose under the guise of legitimate acts" under Article 52 of the PRC Contract Law, and do not violate the provisions of the PRC Contract Law or the General Principles of the PRC Civil Law. However, there are substantial uncertainties regarding the interpretation and application of PRC laws and future PRC laws and regulations, and there can be no assurance that any PRC government agency will not take a view that is contrary to or otherwise different from the above.

ii. According to the Contractual Arrangements, when a dispute arises, any party to the agreements may submit such dispute to the China International Economic and Trade Arbitration Commission for settlement pursuant to the effective arbitration rules at that time, and the arbitration award shall be final and binding on the parties. Arbitration tribunal may decide compensation for the equity interests and property ownership of the on-shore subsidiaries, decide enforceable remedy or demand liquidation of relevant business or enforceable asset transfer. Any party is entitled to request the competent court to execute the arbitration award when it comes into effect. The courts in Hong Kong and Cayman Islands also have the right to grant or execute awards of arbitration tribunal and make decision or execute temporary remedy on the equity interests and property ownership of the on-shore subsidiaries. However, pursuant to the laws of China, in the settlement of dispute, the arbitration tribunals shall not be entitled to grant an injunctive order to protect the property ownership or equity interests of the on-shore subsidiaries, and shall not issue a temporary or final liquidation order directly. Moreover, the interim remedies or orders granted by the off-shore courts, including Hong Kong and Cayman Islands, may not be recognised or enforced by the courts in China. Therefore, such terms in above agreements may not be enforceable under the laws of China.

Waiver from the Stock Exchange

As Mr, Liu, Mr. Zhu and Mr. Wu are the Controlling Shareholder or substantial Shareholders, or executive Directors where applicable, 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.

In view of the Contractual Arrangements, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to the Company from strict compliance with (i) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules for so long as the Company's Shares are listed on the Stock Exchange subject to certain conditions.

For details, please refer to the section "*Connected Transactions*" in the Prospectus.

Annual Review

The Directors, including the Independent Non-executive Directors, have reviewed each of the Contractual Arrangements set out above and have confirmed that the Contractual Arrangements 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 auditor, PricewaterhouseCoopers, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2018 are set out in Note 31 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent Shareholders' approval, annual review and all disclosure requirements in Chapter 14A of the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

INDEMNITY OF DIRECTORS

The Articles of Association provide that the Directors are entitled to 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 which they shall or may incur or sustain in or about the execution of their duty in their respective offices, provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director. The Company has purchased and maintained Directors' liability insurance during the year under review, which provides appropriate coverage for the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company is incorporated in the Cayman Islands with its shares listed on the Main Board of The Stock Exchange of Hong Kong Limited. The Group's subsidiaries are incorporated in the British Virgin Islands, Hong Kong and China. The Group's operations are mainly carried out by the Group's subsidiaries in China. Our establishments and operations accordingly shall comply with relevant laws and regulations in the Cayman Islands, the British Virgin Islands, China and Hong Kong. During the year under review, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Group.

CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules as its own code to govern its corporate governance practices.

In the opinion of the Directors, the Company has complied with the relevant code provisions contained in the Corporate Governance Code during the Reporting Period.

The Board will continue to review and monitor the practices of the Company with an aim to maintaining a high standard of corporate governance.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 37 to 45 of this annual report.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issues (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its code of conduct for Directors' securities transactions. Having made specific enquiry with the Directors, all of the Directors confirmed that they have complied with the required standards as set out in the Model Code since the Listing Date up to the date of this annual report.

SUFFICIENT PUBLIC FLOAT

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

AUDITOR

The Shares were only listed on the Stock Exchange on July 12, 2018, and there has been no change in auditors since the Listing Date. The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who are proposed for reappointment at the forthcoming AGM.

On behalf of the Board

Liu Jie
Chairman and Chief Executive Officer

Hong Kong, April, 2019

Director and Senior Management

BOARD OF DIRECTORS

The directors and senior management of the Company during the year and up to the date of this annual report were:

Executive Directors

LIU Jie (劉傑) (*Chairman*)
WU Junjie (吳俊傑)
WANG Zaicheng (王在成)
LIU Zhanxi (劉展喜)

Independent Non-executive Directors

GUO Jingdou (郭靜鬥)
YAO Minru (姚敏茹)
DU Geyang (杜戈陽)

In accordance with Article 87 of the Articles of Association, Mr LIU Jie, Mr. WU Junjie, Mr. WANG Zaicheng and Mr. LIU Zhanxi will retire at the 2019 AGM and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive Director a written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board considers all the Independent non-executive Directors as independent.

Biographical Details of Directors

Mr. LIU Jie (劉傑), aged 37, is the co-founder of our Group and currently is Director of the Company. Mr. Liu was appointed as chairman, chief executive officer of the Company and has been re-designated as an executive Director on 16 March 2018. Mr. Liu has served as the president of Shanghai Youmin Networks Technology Limited since December 2013. With more than 14 years of experience in the mobile internet industry and profound expertise in user experience and traffic, Mr. Liu has been the key driver of our business strategy and achievements to date. Mr. Liu is mainly responsible for the strategic development, overall operation and management and major decision-making of our Group.

From December 2004 to February 2005, Mr. Liu worked as a product manager at Shenzhen Xuntian Communication Technology Company Limited (深圳市訊天通信技術有限公司). From December 2004 to February 2005, Mr. Liu worked as a product manager at Shenzhen Haotian Investment Company Limited. From October 2006 to December 2012, Mr. Liu served as the general manager at Shenzhen Dongrun Information Consultation Company Limited, an advertising and consulting company, and was mainly responsible for corporate operation and management.

Mr. Liu obtained a graduate certificate in computer science and application from Guangdong University of Foreign Studies in July 2003.

Director and Senior Management

Mr. WU Junjie (吳俊傑), aged 41, currently is an executive Director of the Company. Mr. Wu is also a vice president of the Company, mainly responsible for strategic development and daily management of our Group. Mr. Wu has served as the vice president of Shanghai Youmin Networks Technology Limited since December 2013.

From December 2000 to April 2002, Mr. Wu served as a human resources supervisor at San Miguel Shunde Brewery Co., Ltd. From February 2003 to March 2004, he served at Guangdong Vtron Rixin Electronics Company Limited. From April 2004 to May 2006, Mr. Wu served as a human resource manager at Guangzhou Hangxin Electronics Company Limited. From January 2007 to September 2010, Mr. Wu served as the vice head of human resources at Aspire Holdings Limited.

Mr. Wu graduated from Wuhan University of Science and Technology with a bachelor degree in business administration in June 2000. Mr. Wu graduated from Sun Yat-sen University with an EMBA degree (part time degree) in December 2012.

Mr. WANG Zaicheng (王在成), aged 40, currently is an executive Director and joint company secretary of the Company, responsible for strategic development and investor relationship management of our Group. Mr. Wang joined Shanghai Youmin Networks Technology Limited in December 2016 as the secretary to the board.

From June 2002 to December 2005, Mr. Wang served successively as an associate and a senior associate at PricewaterhouseCoopers, where Mr. Wang was principally responsible for the assurance and advisory business. From February 2006 to October 2016, Mr. Wang held various positions including internal auditor, manager, deputy general manager of overseas sales department of the operation center, chief operating officer and a director at Jinming Machinery (Guangdong) Co., Ltd (a company listed on Shenzhen Stock Exchange, stock code: 300281).

Mr. Wang graduated from South China University of Technology with a bachelor degree in international finance and a bachelor degree in English in July 2002.

Mr. LIU Zhanxi (劉展喜), aged 40, currently is an executive Director of the Company. Mr. Liu is also the chief financial officer of the Company, responsible for strategic development and overseeing financial operations of our Group. Mr. Liu joined Shanghai Youmin Networks Technology Limited in May 2017 as the chief financial officer.

Mr. Liu has over 15 years of experience in the field of financial management. From September 2001 to September 2006, Mr. Liu successively served as an auditor and a senior auditor at Ernst & Young in China and was principally responsible for the assurance and advisory business. From September 2006 to December 2010, Mr. Liu severed as a senior consultant at Deloitte Touche Tohmatsu and was primarily responsible for financial advisory. From January 2012 to May 2017, Mr. Liu served as the deputy general manager of the finance department at YY Inc. (a company listed on NASDAQ, stock code: YY) and was mainly responsible for financial management and listing application.

Mr. Liu graduated from Guangdong University of Foreign Studies with a bachelor degree in English in June 2001. Mr. Liu has been a member of CPA Australia since July 2016.

Mr. GUO Jingdou (郭靜鬥), aged 41, currently is an independent non-executive Director of the Company. Mr. Guo is primarily responsible for supervising and providing independent judgement to the Board.

From May 2010 to October 2010, Mr. Guo served as the senior manager of assets management at Foshan Jiachuang Real Estate Co., Ltd, and was primarily responsible for real estate investment management. From October 2010 to September 2017, Mr. Guo worked as the investment director of the strategic investment department of Alpha Group (a company listed on the Shenzhen Stock Exchange, stock code: 002292), where Mr. Guo was mainly responsible for the investment and acquisition and merger of listed companies. From September 2017 to May 2018, Mr. Guo served as the managing director at Guangzhou Chengfa Capital Company Limited, where he is mainly responsible for the management of Guangzhou Culture Investment Fund. In June 2018, Mr. Guo founded Guangzhou City Qingting Cultural Development Co., Ltd, a company mainly engaged in animation content production and development, and has served as president.

Mr. Guo graduated from Shijiazhuang College of Economics (currently known as Hebei GEO University) with a bachelor degree in economics in July 1999. Mr. Guo graduated from Euromed Marseille Ecole de Management (currently known as KEDGE Business School) in France with a master of international business in September 2003. Mr. Guo was qualified as an intermediate economist (中級經濟師) by Guangzhou Municipal Bureau of Human Resources and Social Security in December 2014.

Ms. Yao Minru (姚敏茹), aged 41, currently is an independent non-executive Director of the Company. Ms. Yao is primarily responsible for supervising and providing independent judgement to the Board.

Ms. Yao has over 16 years of experience in the field of audit. From October 2000 to September 2002, Ms. Yao served as a staff auditor at Ernst & Young in China. From October 2002 to April 2005, Ms. Yao served as a senior internal auditor of Amway in China. From August 2007 to February 2012, Ms. Yao served as an assurance senior at Ernst &Young in the United States. Ms. Yao joined YY Inc. (a company listed on NASDAQ, stock code: YY) as an audit manager in June 2012 and was promoted to her current position as the director of the internal control department in November 2016.

Ms. Yao graduated from Sun Yat-sen University with a bachelor degree in English in June 2000. Ms. Yao graduated from Suffolk University with a master of science in accounting in the United States in May 2007. Ms. Yao has been qualified as a licensed U.S. certified public accountant since September 2008.

Mr. Du Geyang (杜戈陽), aged 39, currently is an independent non-executive Director. Mr. Du is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Du has 16 years of experience in the field of audit, financing and real estate development. From August 2002 to June 2010, Mr. Du served as a manager at the audit department of PricewaterhouseCoopers in Guangzhou. From June 2010 to November 2014, Mr. Du served as the general manager of the financial management department and investment department at Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd. From October 2014 to January 2018, Mr. Du served as Head of Finance at a subsidiary of Galaxy Entertainment Group (a company listed on Hong Kong Stock Exchange, stock code: 27). From January to August 2018, Mr. Du served as the senior investment director of Fullsun International Holdings Group Co., Limited (a company listed on Hong Kong Stock Exchange, stock code: 627), a real estate company, in Hong Kong. Since December 2018, Mr. Du has served as Vice President and Chief Finance Officer at Central Holding Group.

Mr. Du graduated from South China University of Technology in July 2002 with a bachelor degree in business administration. Mr. Du qualified as a Certified Public Accountant (non-practicing) in the People's Republic of China in March 2006.

SENIOR MANAGEMENT

The senior management team of the Group is composed of the following:

Name	Age	Position	Roles and responsibilities
Mr. ZHU Yanbin (朱炎彬)	38	Chief Operating Officer	Business operation and development
Ms. LI Nini (李妮妮)	36	Vice President	Business operation and project management

Biographical Details of Senior Management

Mr. ZHU Yanbin (朱炎彬), aged 38, is the co-founder of the Group and the chief operating officer of the Company, mainly responsible for business operation and development for the Group. He has served as the vice president of Youmin Networks since December 2013.

From June 2003 to December 2004, Mr. Zhu worked as a product manger at Shenzhen Xuntian Communication Technology Company Limited. From May 2005 to April 2006, he worked as a product manager at Shenzhen Haotian Investment Company Limited. From May 2006 to September 2007, he worked as a operation manager at Guangzhou Rock Mobile Networks Company Limited. From September 2007 to December 2012, he worked as the vice president of operation at Shenzhen Dongrun Information Consultation Company Limited, an advertising and consulting company, where he was mainly responsible for operation management.

Mr. Zhu obtained a graduate certificate in electronic commerce from Jinan University (暨南大學) in July 2003.

Ms. LI Nini (李妮妮), aged 36, is vice president of the Group, mainly responsible for the business operation and project management. She has served as vice president of Youmin Net works since December 2013.

From July 2009 to December 2012, she served as an operation manager at Shenzhen Dongrun Information Consultation Company Limited, an advertising and consulting company.

Ms. Li graduated from Guangdong Ocean University with a bachelor degree in food science and engineering in June 2006 and graduated from Guangdong University of Technology with a master degree in food science and engineering in June 2009.

Corporate Governance Report

OVERVIEW

The Company and its subsidiaries are committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board will continue to review and monitor the corporate governance of the Company, as well as various internal policies and procedures, including but not limited to those applicable to employees and Directors, with reference to the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules and other applicable legal and regulatory requirements so as to maintain a high standard of corporate governance of the Company.

From the Listing Date to 31 December 2018, the Company has complied all the code provisions set forth in the Corporate Governance Code, with the exception that the roles of the chairman of the Board and the chief executive officer of our Company have not been segregated as required by code provision A.2.1. With extensive experience in the mobile internet industry and mobile game publishing industry, the Chairman is responsible for the strategic development, overall operation and management and major decision-making of our Group and is instrumental to our growth and business expansion since our establishment in 2013. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and our Board, which comprises experienced and visionary individuals. The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

Board of Directors

The Board is responsible for overseeing the management, businesses, strategic directions and financial performance of the Group. The Board holds regular meetings to discuss the Group's businesses and operations. The Board delegates the day-to-day management, administration and operation of the Group to the management team. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

As at 31 December 2018, the Board consists of seven Directors, of whom four are executive Directors and the remaining three are independent non-executive Directors. The table below sets out the roles of each member of the Board:

Directors	Position
Liu Jie ("**Mr. Liu**")	Executive Director, chairman of the Board and chief executive officer
Wu Junjie ("**Mr. Wu**")	Executive Director and vice president
Wang Zaicheng ("**Mr. Wang**")	Executive Director and joint company secretary
Liu Zhanxi ("**Mr. Liu Zhanxi**")	Executive Director and chief financial officer
Guo Jingdou ("**Mr. Guo**")	Independent non-executive Director
Yao Minru ("**Ms. Yao**")	Independent non-executive Director
Du Geyang ("**Mr. Du**")	Independent non-executive Director

None of the Directors have a relationship (including financial, family or other material or related relationship) with each other. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors of the Company are set out on pages 33 to 35 of this annual report.

From the Listing Date to 31 December 2018, the Board has complied with the requirements of the Listing Rules on appointment of at least three independent non-executive Directors, representing at least one-third of members of the Board and at least one of whom shall have appropriate professional qualifications, or accounting or relevant financial management expertise. The qualifications of the three independent non-executive Directors of the Company fully comply with the requirements of Rules 3.10(1) and (2) of the Listing Rules. The Board is well-balanced in structure and each of its members possesses extensive knowledge, experience and talent in relation to the business operation and development of the Company. All the Directors are well aware of their joint and several responsibilities towards the shareholders of the Company.

None of the independent non-executive Directors of the Company has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence.

Confirmation of Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence under Rule 3.13 of the Listing Rules. Accordingly, the Company is of the opinion that all the independent non-executive Directors are independent under Rule 3.13 of the Listing Rules.

Joint Company Secretaries

Mr. Wang and Mr. Wong Yu Kit are joint company secretaries of the Company.

Mr. Wong Yu Kit is the assistance vice president of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed. Mr. Wang is the primary point of contact at the Company for Mr. Wong.

For the year ended 31 December 2018, each of Mr. Wang and Mr. Wong Yu Kit has undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

Directors' Continuous Training and Development

Pursuant to code provision A.6.5 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, the Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. All Directors have participated in continuous professional development by reading training materials and attending training courses on the topics related to corporate governance and regulations.

According to the records maintained by the Company, all Directors of the Company participated in the trainings regarding the knowledge of Listing Rules and other legislations, as well as the knowledge in relation to responsibilities of directors of a listed company, in order to comply with the requirements of the Corporate Governance Code in relation to continuous professional development.

The training record of each Director received during the year ended 31 December 2018 is set out below:

Name of director	Reading materials relevant to corporate governance and regulations	Attending training session (s) relevant to corporate governance and regulations
Executive Directors		
Mr. Liu Jie (Chairman)	Y	Y
Mr. Wu Junjie	Y	Y
Mr. Wang Zaicheng	Y	Y
Mr. Liu Zhanxi	Y	Y
Independent Non-executive Directors		
Mr. Guo Jingdou	Y	Y
Ms. Yao Minru	Y	Y
Mr. Du Geyang	Y	Y

Appointment and Re-election of Directors

All Directors (including non-executive Directors) are appointed for a specific term of three years which may be extended as each and the Company may agree, subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company. Article 84 of the articles of association of the Company provides that at each AGM, one-third of the Directors for the time being (or if their number is not a multiple of three, the number nearest to one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the nomination committee of the Board (the "**Nomination Committee**") and then submitted to the Board, subject to approval by election at the general meeting.

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies if there are any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board. The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

Emoluments of Directors and Senior Management and Five Highest Paid Individuals

Emoluments of Directors shall be proposed by the remuneration committee (the "**Remuneration Committee**") based on their educational background and working experience. As authorized by the general meeting, emoluments of Directors shall be determined by the Board with reference to Directors' experience, working performance and position as well as the market conditions.

Emoluments of senior management shall be determined by the Board.

Details of emoluments of Directors, senior management and five highest paid individuals of the Company are set out in notes 7 and 34 to the consolidated financial statements.

Board Diversity Policy

In accordance with the latest amendment and requirements of the Corporate Governance Code, the Company has adopted a board diversity policy (the "**Policy**"). The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will disclose the composition of the Board in Corporate Governance Report every year and supervise the implementation of this Policy. The Nomination Committee will review the effectiveness of this Policy, as appropriate discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this annual report, the Board consists of six male and one female with four Directors of age 31–40 years old and three Directors of age 41–50 years old. The Nomination Committee has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable the Company to maintain high standard of operation.

Directors' and Senior Management's Liability Insurance

The Company has entered into Directors' and senior management's liability insurance policy to cover any possible legal action against them.

BOARD MEETING

The Company adopts a practice to convene Board meetings regularly which is at least four meetings per year and roughly on a quarterly basis with active participation of the majority of the Directors, either in person or through electronic means of communication. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days in advance with the matters to be discussed specified in the agenda of the meeting. For other Board and committee meetings, reasonable notice is generally served. Agendas or relevant documents of the Board or committee meetings shall be despatched to the Directors or members of the committees at least 3 days prior to the convening of the meetings to ensure that they have sufficient time to review the relevant documents and be adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given opportunity to make their views known to the Chairman prior to the meeting.

The minutes of the Board meetings and committees thoroughly recorded all matters under consideration and decisions made including any problems raised by the Directors. Directors have a right to review the minutes of the Board meetings and the committee meetings. The minutes are kept by the joint company secretaries of the Company and the copies are circulated to all Directors for reference record purpose.

Since the Listing Date and up to the date of this annual report, the Company held two Board meetings in total. As the Company was listed on the Stock Exchange on 12 July 2018, the Company did not hold any general meetings during the reporting period. The Company will fully comply with the requirement under the code provision A.1.1 of the Corporate Governance Code to convene Board meetings at least four times a year at approximately quarterly intervals. The attendance records of the Directors of the Board Meeting are as follows:

Name of Directors	Meetings attended/Meetings eligible to attend
Executive Director	
Mr. Liu	2/2
Mr. Wu	2/2
Mr. Wang	2/2
Mr. Liu Zhanxi	2/2
Independent non-executive Director	
Ms. Yao	2/2
Mr. Guo	2/2
Mr. Du	2/2

BOARD COMMITTEES

The Company has three Board committees, namely the audit committee (the "**Audit Committee**"), the Remuneration Committee and the Nomination Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee comprises three members, namely Ms. Yao, Mr. Guo and Mr. Du, all being independent non-executive Directors of the Company. Ms. Yao is the chairwoman of the Audit Committee, who possesses professional qualifications. The primary duties of the Audit Committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, risk management and internal control systems of our Group, to oversee the audit process, the develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

The Audit Committee held two meetings during the reporting period and up to the date of this annual report to review and consider, in respect of the year ended 31 December 2018, the interim and annual financial results and reports, amendments to its terms of reference, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services. The Audit Committee also met the external auditors once during the reporting period without the presence of the executive Directors and the management. The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance/Number of Meeting(s)
Ms. Yao	2/2
Mr. Guo	2/2
Mr. Du	2/2

The Audit Committee is of the opinion that the Group's consolidated financial statements for the year ended 31 December 2018 comply with the applicable accounting principles, standards, and requirements and that adequate disclosures have been made. The Audit Committee therefore recommend for the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2018.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee comprises three members, namely Mr. Guo, Mr. Wu and Mr. Du. Mr. Guo is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations to the Board on employee benefit arrangement.

Due to the fact that the Company was listed on 12 July 2018, no meeting was held during the reporting period.

Since the Listing Date and up to the date of this annual report, one meeting of the Remuneration Committee was held on 28 March 2019 to review the remuneration policy and structure and to make recommendations to the Board on determining the annual remuneration packages of the executive Directors and the senior management and other related matters.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/Number of Meeting(s)
Mr. Guo	1/1
Mr. Wu	1/1
Mr. Du	1/1

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee comprises three members, namely Mr. Liu, Mr. Guo and Mr. Du. Mr. Liu has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee are to make recommendations to our Board on the appointment of members of our Board.

Due to the fact that the Company was listed on 12 July 2018, no meeting was held during the reporting period.

Since the Listing Date and up to the date of this annual report, one meeting of the Nomination Committee was held on 28 March 2019 to review composition and structure of the Board, evaluate the independence of the independent non-executive Directors and recommend the Board on the re-election of Directors. The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance/Number of Meeting(s)
Mr. Liu	1/1
Mr. Guo	1/1
Mr. Du	1/1

Corporate Governance Functions

No corporate governance committee has been established. The Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, reviewing and monitoring the training and continuous professional development of Directors and senior management, reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements, reviewing the Company's compliance with the Code and disclosure in the Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuer" (The "**Model Code**") set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors, the Group's senior management, and employees who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company's securities.

Having made specific enquiries to all Directors, all of them confirmed that they have complied with the required standard set out in the Model Code from the Listing Date to 31 December 2018. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group from the Listing Date to 31 December 2018.

AUDITOR AND THEIR REMUNERATION

PricewaterhouseCoopers has been appointed as the external auditor of the Company with effect from 27 July 2018. For the year ended 31 December 2018, the fees paid/payable to PricewaterhouseCoopers for the consolidated financial statement audit service are approximately RMB3 million.

In respect of matters relating to the selection, appointment, resignation or dismissal of the external auditor, the Board concurs with the view of the Audit Committee.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge that they are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs and results of the Group. In doing so, the Directors opted for suitable accounting policies and applied them consistently and used accounting estimates as appropriate in the circumstances. With the assistance of the accounting and finance staffs, the Directors ensured that the financial statements of the Group are prepared in accordance with statutory requirements and appropriate financial reporting standards.

The statement of the external auditor of the Company, PricewaterhouseCoopers, in relation to their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 76 to 80.

RISK MANAGEMENT AND INTERNAL CONTROL

Assisted by the Audit Committee, the Board monitors the effectiveness of risk management and internal control systems of the Company, in order to protect the assets and value of the Company. The risk management and internal control systems implemented by the Company aim to manage rather than eliminate risks of failure to achieve the business objectives, and only to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Company has an internal audit function in place, which is responsible for independently reviewing the adequacy and effectiveness of the risk management and internal control system of the Company, and reporting the results to the Audit Committee. Internal control supervisor of the Company is responsible for coordinating the internal control, sorting out and improving the business process and management mechanism, and carrying out the effectiveness evaluation of internal control. In addition to the internal control and internal audit functions, all employees are liable for risk management and internal control within their business scope. Each business department shall actively cooperate with the internal control and internal review, report to the management on the important development of the department's business and the implementation of policies and strategies established by the Company, and identify, evaluate and manage major risks in time.

The Company has established risk management and internal control management to build general risk management and internal control environment. At present, the Company has built an internal control process framework covering procurement, sales, human resources and compensation management, marketing and promotion management, tax management, capital management, information security and intellectual property rights, financial reporting and disclosure and other business processes and carry out risk assessment regularly to ensure risk management and internal control being in operation effectively.

For related risk matters disclosed in the prospectus before listing of the Company, the Company has taken a series of control measures and keep in concern continuously.

During the year ended 31 December 2018, the Board has reviewed the risk management and internal control system and consider them to be sound and effective. The scope of review covers key control, including the function of finance, operation and compliance control and risk management. The Board considers that the Company has substantially sufficient resource in accounting, internal audit and financial reporting, and training course and the related budget also be sufficient. The relevant review has been discussed by the management of the Company, external and internal auditor and audited by Audit committee.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Articles was conditionally adopted by the Board on June 19, 2018 and became effective on the Listing Date. A copy of the Articles is available on the website of the Company and the Stock Exchange. Since the Listing Date up to the date of this annual report, there was no significant change in constitutional documents of the Company.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders of the Company and the Board. An AGM of the Company shall be held each year at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting ("**EGM**").

1. Right to Convene EGM

Any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, be signed by the requisitionist(s) and deposited to the Board or the company secretary of the Company at the Company's principal place of business, and such may consist of several documents in like form, each signed by one or more requisitionists.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the request has been verified to not be in order, the shareholders will be advised of this outcome and accordingly, an EGM will not be convened as requested. If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting, the requisitionist(s), may convene a meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionist(s) concerned at the EGM varies according to the nature of the proposal, as follows:

- At least 21 clear days' notice (and not less than 10 clear business days) if the proposal constitutes a special resolution of the Company in EGM;
- At least 14 clear days' notice (and not less than 10 clear business days) for proposal of all other EGMs.

2. Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong for the attention of the company secretary.

3. Right to Put Forward Proposals at General Meetings

There are no provisions allowing shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law (2011 Revision). However, shareholders are requested to follow Article 58 of the Company's Articles of Association for including a resolution at an EGM. The requirements and procedures are set out above. Pursuant to Article 85 of the Company's Articles of Association, no person other than a director retiring at a meeting shall, unless recommended by the directors for election, be eligible for appointment as a director at any general meeting unless a notice signed by a member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the minimum length of the period, during which such notice(s) are given, shall be at least 7 days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodging of such notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

INVESTORS RELATIONS

The Company has maintained a continuing dialogue with the Company's shareholders and investors through various channels, including, among others, the Company's interim and annual reports, notices, announcements and the Company's website. The Company also holds press conferences from time to time at which the Executive Directors and senior management of the Group are available to answer questions regarding the Group's business and performance.

Environmental, Social and Governance Report

ABOUT THIS REPORT

Reporting guideline

The Report is prepared in accordance with *Appendix 27 Environmental, Social and Governance Reporting Guide* of *Main Board Listing Rules* issued by Hong Kong Stock Exchange, and addresses disclosure expectations of *Analysis of Environment, Social and Governance Practice Disclosure in 2016/2017* and *How to Prepare an ESG Report? — A Step-by-Step Guide to ESG Reporting,* etc.

Reporting scope

This is the first environmental, social, and governance (ESG) report ("**this report**") issued by FingerTango Holdings Co., Ltd. This report discloses the company's ESG-related performance and data in a time span from 1 January 2018 to 31 December 2018. This report is compiled according to materiality assessment, stakeholder engagement, and other relevant compliance requirements, covering the operational performance of the company in the reporting period.

Data source and reliability statement

The data and cases in this report are collected through a comprehensive procedure of ESG information collection from ESG performance-related programs, documents, pictures, and other related records. The company undertakes that the report does not contain any false information or misleading statements, and accepts responsibility for the contents of the report as to its authenticity, accuracy and completeness.

Confirmation and approval

This report is confirmed by the management level and approved by the Board of Directors on 28 March, 2019.

ESG MANAGEMENT

ESG Working Mechanism

Since the listing in 2018, FingerTango has been closely following the ESG-related disclosure requirements by Hong Kong Stock Exchange. By now, the company has established an ESG management team that consists of senior managers and representatives with ESG-related knowledge and experience, and directly reports to the Board of Directors. The company will continue to regularize the ESG working mechanism, improve the policies and guidelines, and enhance ESG management efficiency.

FingerTango ESG management structure

Working layer	Working group	Responsibilities
Decision layer	Board of Directors	Discuss ESG material issues and future development Review ESG work plans and results Review ESG strategies and guidelines Review ESG management effectiveness
Coordination layer	ESG steering team	Identify ESG material issues and major risks ESG planning and goal management ESG strategies and guidelines Coordinate stakeholder communication Report to the Board of Directors on ESG management conditions on a regular base
Implementation layer	ESG coordinator of each department	Implement ESG information and policy management Support ESG steering team

Stakeholder Communication

FingerTango's ESG strategies were established based on close stakeholder communication. The company collects stakeholder opinions via questionnaire, interview, and game communication mechanism. As the company mainly operates in Mainland China, where regularization of the game industry is tightening, the company actively communicates with local industry regulators to ensure compliance to the latest regulations in products and services. In addition to information disclosed on the company's official website, FingerTango communicates with shareholders and investors via various channels, and strives to meet their expectations. FingerTango attaches great importance to player experience, and maintains active player communication via GM services and social media. The company also collects internal opinions and survey on the employees' expectation of company development via annual employee satisfaction questionnaire and interviews.

Major stakeholders and communication methods

Stakeholder	Expectation and demand	Major communication method
Player	Game quality and game operation Privacy protection Anti-hacking and fair play	Online Game Master (hereafter referred to as "GM") communication Social media interaction
Government and regulator	Compliant operation Job creation Promote local and industrial development	Actively acquire industrial compliance information Collaborate with universities on recruitment program
Employee	Competitive remuneration package Career development Occupational health and safety	Employee satisfaction survey Internal interview
Shareholder/investor	Return of investment Timely and transparent information disclosure	Shareholders' meeting Announcement and information disclosure Investor relation email Official website

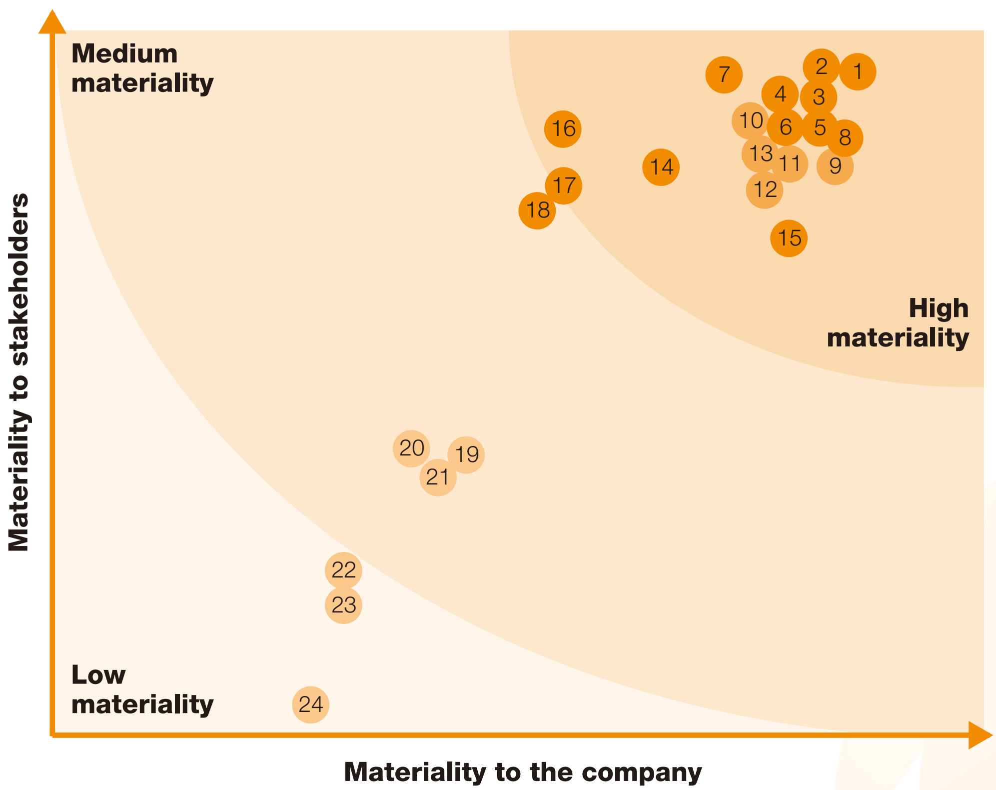
Materiality Analysis

In the reporting period, FingerTango appointed an independent consultant for the materiality assessment to analyze stakeholder concerns and prioritize ESG topics. The assessment result was a key criterion in determining reporting topics and the degree of disclosure of each topic.

FingerTango 2018 ESG materiality assessment procedure:

Step	Content
Stakeholder identification	Identify key stakeholders and create group specific engagement plans.
Stakeholder engagement	Engagement stakeholders via questionnaire and interviews to understand their ESG-related concerns and expectations
Materiality ranking	Analyze the research results and rank the ESG topics.
Management confirmation	Submit the result for the company management to confirm.

ESG Materiality Analysis Matrix



The 2018 FingerTango ESG materiality ranking is shown in the table below, with the sequential numbers corresponding to those in the matrix.

2018 FingerTango ESG materiality ranking (from high to low)

Materiality	No.	Topic
High materiality	1	Player service and communication
	2	Employee care
	3	Game quality and game operation
	4	Privacy protection
	5	Employee safety and health
	6	Intellectual property right protection
	7	Employment
	8	Employee training and development
	9	Support national policies
	10	Sustainable development
	11	Proper marketing and promotion
	12	Anti-unfair competition
	13	Anti-corruption
	14	Healthy network
	15	Public services
	16	Sustainable innovation
	17	Labor guidelines
Medium materiality	18	Social responsibility in supply chain
	19	Energy consumption and conservation
	20	Waste treatment
	21	Water resources management
Low materiality	22	Greenhouse gas emission
	23	Environment and natural resources
	24	Pollutant emission

The materiality assessment shows that "player service and communication", "employee care", "game quality and game operation", and "privacy protection" are among the most concerned topics from stakeholders' standpoints. These issues will be fully elaborated in the report, and taken into key account in the company's strategy and policy-making processes.

PRODUCT AND SERVICE

The core competitiveness of a game company lies in high quality products and services. FingerTango remains true to the original aspiration and dedicate to continuously improving player experience through innovation of products and services.

In 2018, FingerTango expanded its GM service scope, to record and report every potential complaint, which would be followed up to survey player opinions for product improvement. To prevent inappropriate handling of complaints and recurring complaints, FingerTango keeps responsible staff informed of the complaint handling process and result, analyzes the complaint reasons, and consults with relevant business department. Player complaints mainly fall into five categories: game abnormity, punishment measures, GM service, account re-charge, and misconduct report. To address these complaints, FingerTango continues to improve game experience, enhance player communication, protect player privacy, promote healthy games, discover and solve potential problems and risks of products and services, creating values for players with higher quality products and services.

	Quantity	
Compliant type	**2018**	**2017**
Game abnormity	**72**	13
Punishment measures	**22**	18
Account re-charge	**11**	4
GM service	**2**	2
Misconduct report	**1**	0
Total	**108**	37

Improving Game Experience

Providing players with good game experience is the ultimate product responsibility of a game company, and the key to attracting and retaining game players. The company improves game experience by properly handling game abnormity, monitoring game environment, ensuring game network security, consistently enhancing technological development ability, and upgrading games.

For GMs to properly handle game abnormity, FingerTango abides by the *Game Work Sheet Handling Procedure of GM Customer Service Center*, ensuring clear rules and refined processing manner. The GM logs into game backstage to check log data, verifies game abnormity complained by consumer, communicates with the game operator or platform to resolve the exception, and resets the backstage data. FingerTango is dedicated to safeguarding rules and orders of games, and protecting players' rights and interests during game play.

To provide smoother game experience, FingerTango implements the *Work Flow for Player Visit*, monitors the game environment, and cracks down on quantity hacking and plug-in cheating behaviors. Quantity hacking occupies database space and imposes unnecessary server burden, severely impacting the game experience of other players. Upon identifying such behavior, the GM would block the corresponding game account. To ensure fair play, the company identifies and swiftly cracks down any cheating behavior by analyzing player behaviors and collecting evidences, creating a stable and fair network environment for players to enjoy the games.

Furthermore, to support our ever-expanding product portfolio and business scope, and to create products with better player experience, FingerTango has been building on the game pool, optimizing product launching strategies, improving talent structure by recruiting technological and marketing top talents, and investing in resources.

Player Communication

FingerTango deems the players as a significant stakeholder group, and attend to their opinions and feedback for product improvement. To do so, the company provides various player complaint channels, complies GM Service Guidelines to improve GM services, and monitor their service quality.

FingerTango provides internal and external communication channels for players to smoothly express their opinions. The internal channels are convenient and efficient, addressing player demands in a timely fashion. The external channels exert the supervising function to complement the player supervision mechanism.

Player complaint channel	Measure
Internal	GM hotline
	Game K diagram
	3K official website
	GM function in system setting
	Official WeChat account
	Game feedback function
External	12315 consumer complaint hotline
	Industry and Commerce Bureau
	Culture and Tourism Bureau
	Cultural law enforcement system
	Consumer Rights Protection Association

To improve GM service quality and effectively address player complaints, FingerTango implements *3K GM Telephone Complaint Reception Guidelines*, which specifies the complaint reception preparation works, and the conduct codes during the process, requiring GMs to show empathy and express sincere gratitude for players' opinions. To address different complaints, FingerTango requires GMs to carefully analyze the reasons behind, and respond to the players following the handling procedure and expression guidelines. The company also requires GMs to master a certain level of communication skills, and file in complaint forms upon player feedback. The professional GM team enables FingerTango to better attend to player demands and enhance player communication.

FingerTango conducts GM service quality inspection and supervision as per *Regulations on 3K GM Service Quality Inspection* in a fair, impartial and rigorous way. The company requires quality inspection staff to review no less than 100 online complaint communication records each day, and grades them by A+/A/B/C. GMs are required to compile weekly and monthly reports, and handling fault would be given zero score.

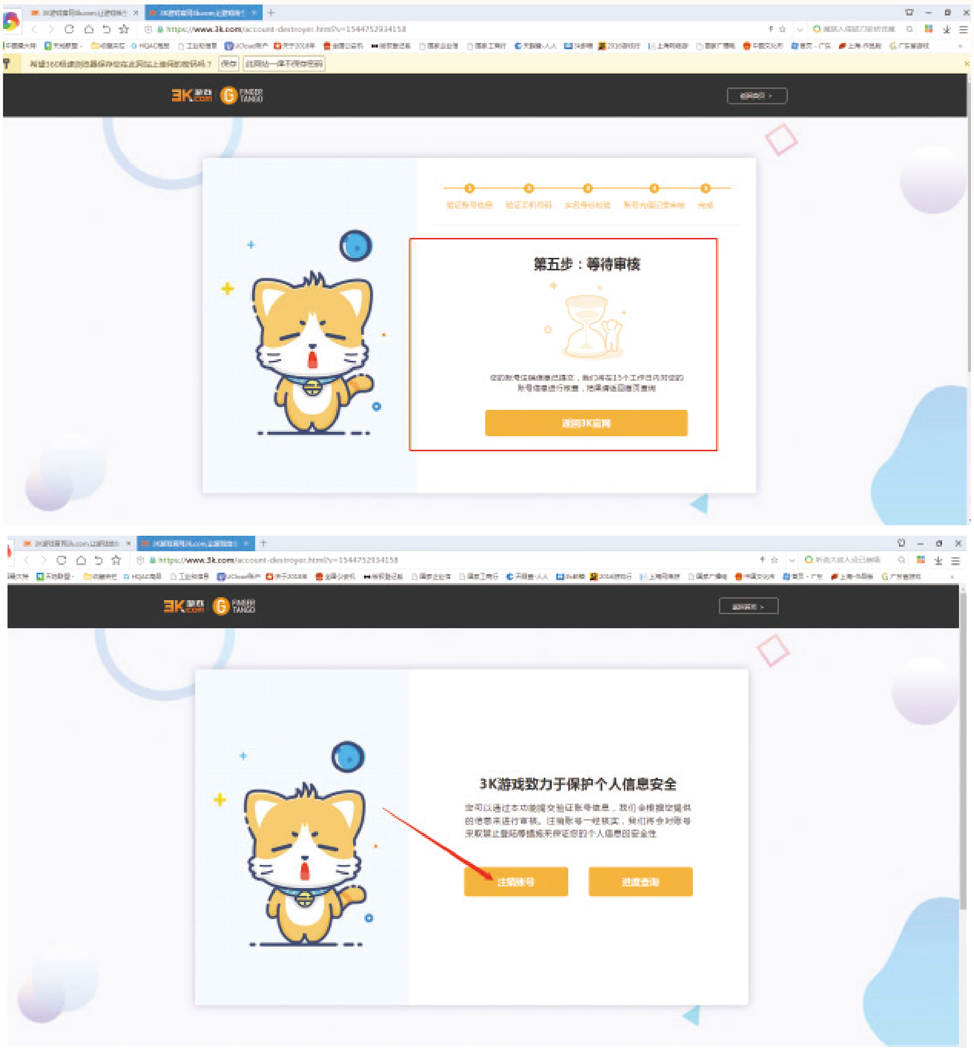
Privacy Protection

Privacy protection is vital in the big data era. FingerTango endeavors to protect players' individual information and other private data by upgrading player privacy and account data protection through a joint measure in technology, policies, and procedures.

In recent years, the company has expanded the technology talent from 20 to 60 persons, covering the fields of information security, privacy protection, and data protection. To reduce data leakage risks, the company has set access authority to the internal server. In 2018, we further strengthened the security precaution by only granting database access to certain approved IPs in the internal network. In addition, FingerTango employs third-party organization for information security assessment. We passed the Grade II Protection of Information System Security in 2018. The company adopts a series of rigorous measures to ensure a safe network environment for players by building server fire wall, isolating servers of different business lines, controlling technical staff access, and only granting database access to approved internal network IPs.

The company strictly abides by *Cybersecurity Law of the People's Republic of China, Regulation on Internet Information Service of the People's Republic of China*, and other laws and regulations, and is in active consultation with the Cyberspace Administration Office. The company has included applicable laws and regulations on privacy protection into the 2018 updated *3K Privacy Policies*, which specifies in details the information likely to be collected, the possible use of player information, the application of Cookie and similar technologies, and the measures to protect player information.

FingerTango attaches great importance to the security of player account, game characters, equipment, and other virtual properties. For account problems, the company has established a regulated process including retrieving account, retrieving password, unbinding mobile number, and retrieving security lock, to safeguard account security for players. This year, the FingerTango game platform introduced account cancelation function and corresponding *Explanation on 3K Game Player Data Destruction Procedure* to further enhance individual information security. Game players can click the "Cancel account" button on the official website and close their accounts following the instructions. The account cancelation procedure contains the following steps: verify account information, verify binded mobile number, verify player identification (upload photos of player holding ID card showing front and back sides), review account re-charge history, cancel account, and wait for review result. The entire process is traceable. With complete required documents, FingerTango guarantees the account cancelation process lasts less than an hour, and players will receive an SMS notification on successful account cancelation from 3K.com within 15 work days after request.



Healthy Games

FingerTango is committed to the mission of “entertain lives with games”, and provides high quality and healthy game experience for players. The company maintains stable development under the guidance of national policies, cares for player physical and psychological health, regulates advertisement and promotion, strengthens healthy online game culture, and shoulders social responsibilities.

The company actively follows up on instructions from the Ministry of Public Security of the People’s Republic of China, the Ministry of Culture of the People’s Republic of China, the Ministry of Industry and Informatization of the People’s Republic of China, and the Ministry of Education of the People’s Republic of China, and consults closely with regulators to adapt game contents to the development trend. The company abides by *Interim Measures of Online Game Management, Interim Provisions on Cyber Culture Management, Notice of the Ministry of Culture on Enhancing Afterwards Supervision and Strengthening Regulations of Online Games*, and other laws and regulations, and has adopted a series of measures to ensure compliance.

To protect the physical and psychological health of game players and teenagers, FingerTango adopts real-name registration system for account re-charging as per *Implementation Plan of Comprehensive Prevention and Control of Juvenile Myopia* and other regulations. To ensure a clean and healthy game communication environment, the company has been screening words and phrases with adverse impact according to social trends. The screen word library has accumulated 90,000 words through monthly update and re-computing. In addition, FingerTango provides supervision and complaint channels for game players to report misconduct, working together with them to ensure a healthy environment for online games.

The company abides by *Advertisement Law of the People's Republic of China, Interim Measures for Online Advertisement Management*, and other laws and regulations, and has issued *Regulations on Advertisement Content Review, 3K Games Advertisement Review Regulations*, and other working regulations to ensure advertisement compliance. Any advertisements must go through internal legal review before submitting to external regulator for further review. Internal review record would be filed for each advertisement. Once found inappropriate, the advertisement would be withdrawn and rectified. The company also attaches great importance to business departments to enhance employee awareness in advertisement compliance.

Intellectual Property Rights Protection

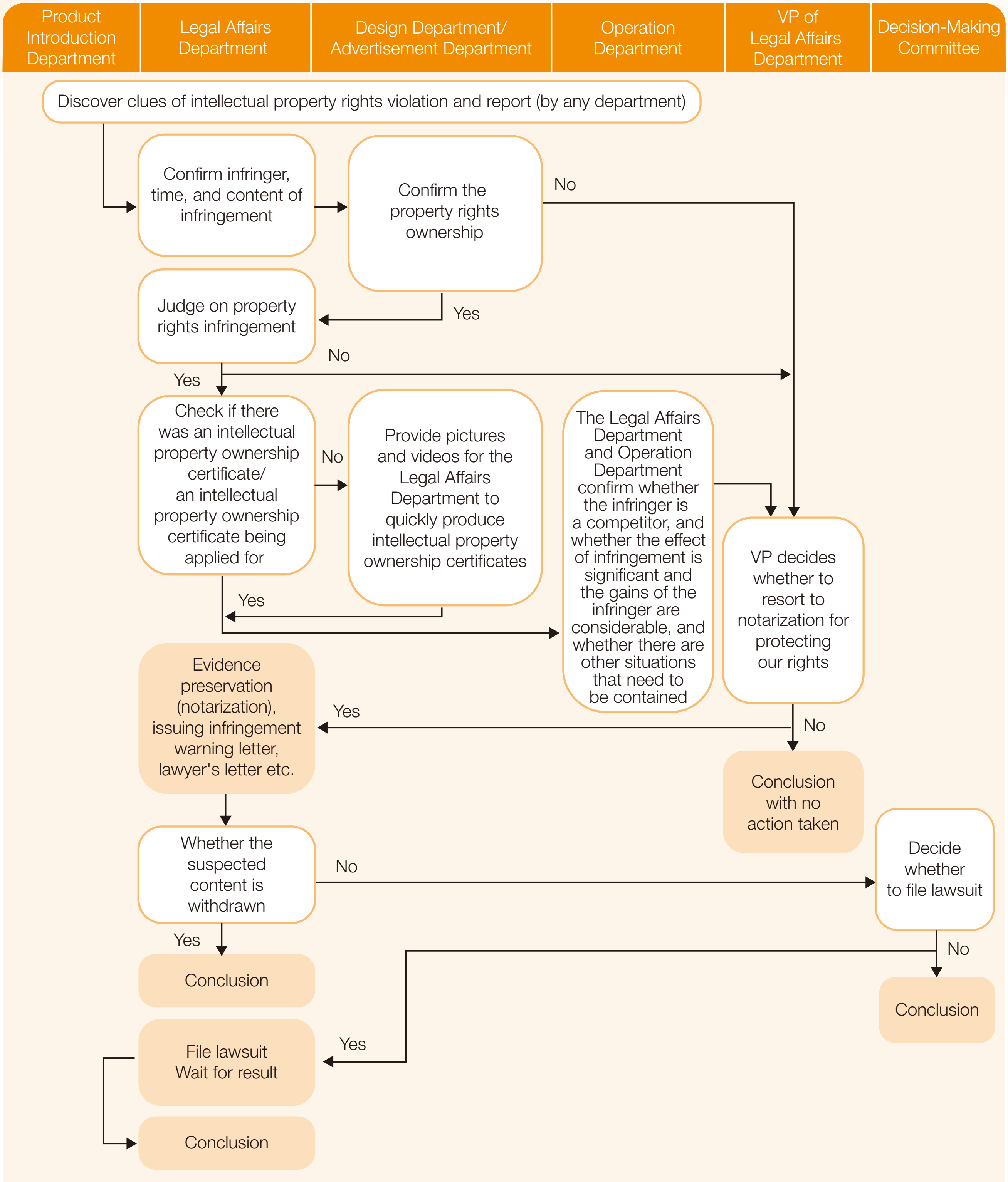
The protection of intellectual property (IP) rights is essential to the stable development of online games. FingerTango fully recognizes the importance of IP rights protection to the company and to other IP right owners, and has established rigorous and comprehensive procedures of intellectual property rights protection in accordance with *Intellectual Property Rights Protection Law of the People's Republic of China* to protect the intellectual property rights of the company and others.

As the integration of creative ideas and technologies, online games is no doubt a key focus in intellectual property right protection. FingerTango has established an IP right verification procedure that requires the Product Cooperation Department to provide game name within one work day upon cooperation confirmation, the Design Department to provide finished pictures and videos, and the Operation Department to provide tentative game launch name, backup names and other reserved names , for the Legal Affairs Department to issue intellectual property right certifications. It also requires the game designer/producer to keep the drafts and original documents generated during the design process.

FingerTango has also established a procedure to safeguard intellectual property rights (shown in the figure below) and to optimize the intellectual property rights management system. Any employee in the company can report on clues of intellectual property right infringement, which would be investigated by the Legal Affairs Department, verified by the Design Department and Advertisement Department whether it is an original IP or a solely owned IP of the Company, and determined by the Legal Affairs Department if it is an infringement. For a confirmed infringement, the Company's Intellectual Property Rights Committee preserve the right to lawsuit decision.

FingerTango believes that implementation of intellectual property rights protection measures can motivate innovation, protect intellectual work results, and turn them into real productivity. In the future, FingerTango will put more manpower and resources into the protection of intellectual property rights.

Procedure of handling intellectual property right protection



EMPLOYEE CARE

FingerTango deeply understands that employee contribution is essential to company development, and the effective protection of employee rights and interests lays the foundation for stable operation. The Company dedicates to creating a fair, regulated, positive, and harmonious working atmosphere for employees, and attends to employee needs through regular satisfaction surveys. In 2018, based on satisfaction survey result from previous year, the Company optimized recruitment procedure, adjusted remuneration plans to market trend, strengthened occupational health and security, implemented new employee training and development plans, to safeguard employee rights and interests with a proactive attitude and quality services.

Talent Recruitment

FingerTango firmly believes that talents is the most valuable treasure and resource in the company. We adopt an employee-oriented attitude to recruit talents from different industries with various professional skills, and provide them with a pleasant workplace.

The Company strictly abides by *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China,* other labor laws and regulations, and local employment policies. The company recruits university and college graduates and people with work experiences, and confirms their age by checking their IDs during onboarding, preventing child labor from the beginning. The Company signs official employment contracts with all interns and regular employees, and strictly conforms to the probation regulations. The Company respects and safeguards the right of individual freedom. We adopt flexible work schedule and offers employees sufficient free time and space.

The Company continuously improves the human resource management system to ensure fairness and impartiality in employee assessment, promotion, development, and benefit package, and prevent any discrimination based on gender, region, nationality, and religion.

As of 31 December 2018, there were 390 employees in the Company, the male-female ratio is 1.68:1. Our workforce is youthful, 86% of which under 30, and the rest in their 30s to 50s. The Company dedicates to create more jobs for the society, and employed 149% more than last year.

Remuneration and Benefits

FingerTango has established the *3K Benefit Plan* based on *Labor Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Tax Law of the People's Republic of China*, and other laws and regulations. The company fulfills its legal obligations by paying pension, medical insurance, maternity insurance, work injury insurance, unemployment insurances and housing fund, and withholding individual income tax for employees; employees are entitled to paid public holidays, paid annual leave, wedding leave, maternity leave, prenatal check leave, breastfeed leave, paternity leave, funeral leave, and overtime wages for works during holidays according to the law.

The company serves the employees with work meals and afternoon teas during work days to help them form regular diet, and sends them gifts or cash gifts for festivals, birthdays, and weddings for benediction, and funerals for condolences.

Occupational Health and Safety

FingerTango attaches great importance to the safety of working environment, and strictly abides by *Fire Protection Law of the People's Republic of China*. The Company has devised *Procedure of Security Service Works* with the security company to ensure electricity safety via patrol check on air-conditioner, lighting, and other electrical switches, and the interior temperature in the server room, and fire protection safety via regular inspections on fire passages of office floors, and timely replacement of expired fire equipment.

The Company carefully selects food supplier to ensure food safety, specifies the food quantity, temperature, quality, and safety requirements in the supply contract to ensure regular meals and good dining experience for employees, and demands rectification for food quality complaint, and changes supplier if rectification fails the employees.

The Company dedicates to creating a healthy and pleasant working environment, and has adopted a series of measures to encourage regular exercises to prevent shoulder and neck strain. Such measures include providing employees with ergonomic office desks and chairs, providing gym room with complete facilities, and organizing weekly sports activities such as badminton, basketball, and football.

The Company strives to eliminate safety and health risks in workspace, and helps employees identify and cope with accidents and risks. We provide employees with comprehensive health protection such as commercial insurance, annual body check, and two days of sick leave per month to cover disease prevention, accidents, vital diseases, illness and death, and in-hospital treatment, and reminds employees with safety signs and internal safety communications of individual safety in the office area, external activities, and festival and holidays. The Company has also established plans to assist employees injured during office hour to access medical treatment and apply for work injury compensation subsequently.

In 2018, there was no significant safety and health accident in the company. On 11 October 2018, an employee broke his left ankle on the way to meet his client. The Company immediately assisted him to the nearest hospital for injury assessment, and facilitated work injury compensation subsequently.

Training and Development

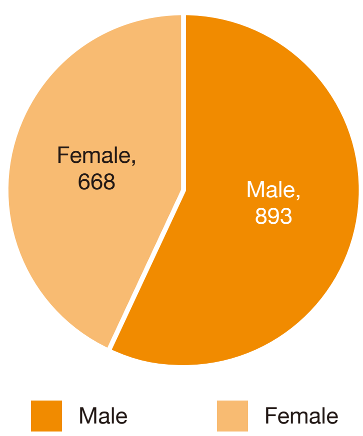
To enhance the mutual growth of employees and the Company, FingerTango provides employees with onboard training and customized on-job training, and rewards talents with professional ethics, outstanding business performance, excellent ability, and rich experience through a fair, impartial, and open management system for employee allocation and remuneration, achieving "win-win" for employees and the Company.

In 2018, the Company saw a robust growth in the talent pool. To meet the training demand of new employees, the Company established *2018 3K Campus Hire Nurture Plan* and *2018 3K Social Hire Integration Plan* to help new employees learn business procedures and integrate into our culture. The campus hire training includes industry introduction, product introduction, distribution model introduction, company business, and company culture, facilitating their role transition and understanding of company culture and business procedures. The social hire training includes mentor nomination, mentor confirmation, onboarding, and probation follow-up and assessment. In addition, all new employees must attend anti-corruption training. In 2018, no embezzlement or corruption case was discovered in the company.

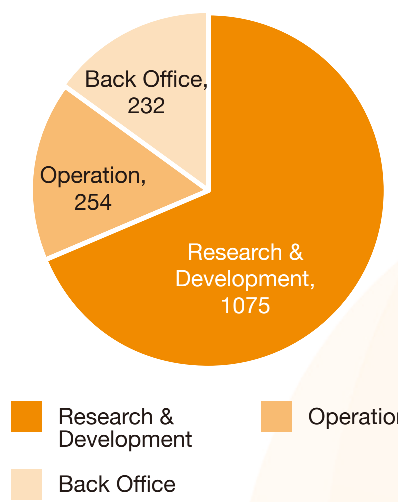
Due to the short iteration cycle of the game industry, the Company strives to improve employee knowledge, ability, and professional ethics, and integrate their personal growth with company development. The Company has built a large reading area in the open office space to encourage learning, and provides employees with internal and external training to meet their needs. The business departments submit training request and the Human Resource Department coordinates training schedules. Employees can be fullly reimbursed for approved and completed external training. In the 2017 satisfaction survey, employees required "training on various professional skills". In response, the Company organized various professional training programs in 2018, including labor risk and financial risk management training for administrative staff, sharing workshops for operation, distribution and design staff, and project management and game development skill training for technical staff.

To ensure match between employees and posts, and provide more promotion opportunities for outstanding employees, the Company has established *Employee Promotion and Remuneration Management Measures* to allocate talents to suitable posts through appropriate rotation and promotion mechanism, integrating individual performance, company interests, and remuneration design to ensure a reasonable remuneration system and employee motivation.

Training hours by gender



Training hours by department



2018 training summary of FingerTango

SOCIAL CONTRIBUTION AND ENVIRONMENTAL PROTECTION

Public Service and Charity

As a leading mobile game company, FingerTango has been actively fulfilling its corporate social responsibilities through public services, charity, and volunteer activities. In 2018, we focused on serving teenagers and the elderlies, and organized a series of public service activities with other organizations, such as book donation, educational aid, visiting left-behind children and elderlies living alone. The company management takes the lead and motivates employees to participate in public services through buying gifts, and organizing and executing activities, working together to ignite the warmth to people in need.

In the reporting period, the company invested nearly RMB90,000 yuan in public services, and organized 105 volunteers to offer material aide and spiritual support to over 1,600 people in need.

Caring for elderlies living alone on Arbor Day

On 17 March 2018, FingerTango, joined with Firefly, organized a trip to Qijing Village, Zengcheng, Guangdong, to plant trees and visit elderlies living alone. Over 30 volunteers planted 20 fruit trees at the foothill and visited 7 elderlies living alone in Qijing Village, giving them each a fan and teaching them how to use it. The Firefly volunteers will attend the trees and distribute yielded fruits to the 7 elderlies. Our volunteers will return to Qijing Village and assist the fruit picking and distribution.


Visiting children at welfare center

On 9 June 2018, our volunteers visited Guangzhou Social Welfare Center and threw a birthday party for 15 children. The volunteers prepared cakes, snacks, drinks, and birthday presents for 70 persons, and played games and sang birthday songs to the children. After the party, the volunteers organized the children to leave the venue in order, and cleaned up the venue.

Donating study equipment

On 28 June 2018, we organized 20 volunteers to visit Puning, Jieyang, Guangdong for public service. The volunteers sent 200 sets of study desks and chairs, and 50 sets of stationary to the 1,020 students of Anren Primary School, and played games with the children and gave them snacks as rewards.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Green Operation

FingerTango is consistently improving its environmental management system as per local environmental protection guidelines and the company's sustainability plan, enhancing employee awareness on environmental protection and reducing environmental impact in daily work and life.

The environmental impact of our operation mainly comes from the consumption of electricity, office materials, household water, and office and household wastes. There is no industrial gas emission, wastewater, or wastes generated by the Company. In the reporting period, the Company committed no environmental misconduct of significant impact.

Energy management and greenhouse gas emission

The energy consumption of FingerTango includes the consumption of outsourced electricity and the gasoline of company cars. Besides tracking monthly energy consumption, the Company also adopts a series of energy conservation measures such as using energy conservative equipment and implementing energy conservation management.

FingerTango has issued "Office Energy Consumption Guidelines" and informed employees via department directors of the company's expectation and encouraged measures for energy conservation and emission reduction, so as to raise employee awareness on energy conservation.

FingerTango Office Energy Conservation Guidelines

a. Employ lighting time control devices.
b. Turn off electronic devices including computers when possible in non-office hours.
c. Maximize the use of LED lights.
d. Employ sensor-controlled lighting and air-conditioning devices in places of low use, such as staircase and washroom.
e. Employ hand dryer instead of tissues for hand drying.
f. Control the air-conditioning temperature at 25–26℃.
g. Consider recyclable materials when buying office supplies.
h. Employ more glass for fit-out to enhance daylighting and reduce the use of lighting fixture.

All lighting fixtures in the office area are LED lights, minimizing lighting energy consumption. The company encourages employees to form light-off habit when leaving and assigns security staff to check the lighting and air-conditioner during patrol, and reminds relevant person of energy waste through the department director when such behavior is noted.

FingerTango 2018 energy consumption and greenhouse gas emission data

Energy consumption	
Total energy consumption	352 MWh
Energy consumption per capita	921 kWh/person
Electricity	351,495 kWh
Gasoline	11,742 Litre

Greenhouse gas emission	
Total volume of greenhouse gas emission	229 tons of CO_2 equivalent[1]
Greenhouse gas emission volume per capita	0.59 ton of CO_2 equivalent/person
Direct emission (scope I)[2]	39 tons of CO_2 equivalent
Indirect emission (scope II)[3]	190 tons of CO_2 equivalent

In the future, FingerTango will continue to explore with stakeholders on new solutions of energy conservation and emission reduction, and the measures to address climate change impact on company operation, and take precaution measures when necessary to address the compliance risks brought by climate change.

Resource conservation and waste management

FingerTango actively promotes resource efficiency and monitors potential environmental impacts from business operation. The Company is dedicated to building a highly informatized and electronized office with notices issued through the OA system and data circulated in an electronic way to reduce paper consumption from printing and copying, and encourages double-side printing and recycling, minimizing environmental impacts from office operation.

The Company provided package box recycle station in the office area, so that employees can re-use package boxes and reduce material waste. The Company classifies office waste such as scrap IT equipment, light tubes, cartridge, and waste paper, and employs qualified organizations for the treatment and recycling of such materials as per *Guangzhou Household Wastes Classification and Management Provision*.

1 "CO_2 equivalent" is a measurement unit to compare different greenhouse gas emission. The calculation of CO_2 equivalent has already included all greenhouse gas types, such as Carbon Dioxide, Methane, and Nitrogen Oxides;

2 According to ISO 14064 Greenhouse Gas Emissions Inventories and Verifications Standards, greenhouse gas emission scope I refers to direct greenhouse gas emission from sources owned and controlled by the organization, e.g. company cars;

3 According to ISO 14064 Greenhouse Gas Emissions Inventories and Verifications Standards, greenhouse gas emission scope II refers to indirect greenhouse gas emission from sources such as outsourced electricity.

The Company employs cleanable meal plates for corporate meals, which will be washed and sterilized for re-use to reduce consumption of disposable meal boxes and tableware, and requires the disposable meal utilities should conform to *General Requirements of Plastic Disposable Tableware* (GB18006.1-2009) in degradability, and should be recyclable, or applicable to sanitary landfill or high-temperature composting.

FingerTango also promotes water conservation to reduce water consumption.

FingerTango 2018 resource consumption and waste data

Water consumption	
Office water consumption	2,035m^3
Water consumption per capita	5m^3/person

Office waste generation	
Light tube	16kg
Cartridge	18
Used battery	3.6kg
Waste paper	224kg
Scrap IT equipment	24 pieces

Measures sharing

Use certified office paper

FingerTango uses CFCC (China Forest Certification Council) and PEFC certified papers to ensure the source of sustainable forest and renewable and controllable resources.

Reduce paper cup

We provide new employees with environmental-friendly bags and cups for personal use to reduce consumption of disposable plastic bags and paper cups in office or on business trip, which proves to be very effective, with the paper cup consumption decreasing from 800/month to 500/month while the total number of employees is increasing.

Appendix I ESG Policies

FingerTango 2018 ESG related laws, regulations, and policies

ESG Aspect	External laws and regulations	Internal policies
A1 Emission	*National Catalogue of Hazardous Wastes* *Municipal Household Wastes Management Measures* *Guangzhou Household Wastes Classification and Management Provision*	*FingerTango Office Energy Conservation Guidelines* *Explanation on Wastes Management Procedure*
A2 Resource utilization	*Energy Conservation Law of the People's Republic of China*	*FingerTango Office Energy Conservation Guidelines* *Shanghai Youmin Security Service Work Flow*
A3 Environment and natural resources	*Environment Protection Law of the People's Republic of China* *Energy Conservation Law of the People's Republic of China*	*FingerTango Office Energy Conservation Guidelines* *Explanation on Wastes Management Procedure*
B1 Employment	*Labor Law of the People's Republic of China* *Labor Contract Law of the People's Republic of China* *Tax Law of the People's Republic of China* *Social Insurance Law of the People's Republic of China* *Regulations on Unemployment Insurance* *Tentative Measures for Corporate Employee Maternity Insurance* *Regulations on Management of Housing Fund*	*3K Welfare Plan* *Employee Promotion and Remuneration Management Measures*
B2 Health and safety	*Employment Injury Insurance Provisions of the People's Republic of China* *Supervision and Management Regulations on Work Space Occupational Sanitation*	*3K Welfare Plan*
B3 Development and training	*Labor Law of the People's Republic of China*	*3K Employee Training Agreement* *2018 3K Social Recruitment Integration Plan* *2018 3K Campus Recruitment Foster Plan*
B4 Labor guidelines	*Law of the People's Republic of China on the Protection of Minors* *Provisions on Prohibition of Child Labor*	The company recruits university and college graduates and people with work experiences, and confirms their age by checking their IDs during onboarding, preventing child labor from the beginning.

Appendix I ESG Policies

FingerTango 2018 ESG related laws, regulations, and policies

ESG Aspect	External laws and regulations	Internal policies
B5 Supply chain management	*Company Law of the People's Republic of China* *Contract Law of the People's Republic of China*	*Anti-fraud Policy* We have considered environmental and social risk factors in our contracts with suppliers of meals, electronics, office equipment and security service.
B6 Product responsibility	*Law of the People's Republic of China on the Protection of the Rights and Interests of Players* *Regulation on Internet Information Service of the People's Republic of China* *Interim Provisions on Cyber Culture Management* *Interim Measures of Online Game Management* *Advertisement Law of the People's Republic of China* *Interim Measures for Online Advertisement Management* *Product Quality Law of the People's Republic of China* *Provisions on Publication Administration* *Notice on Mobile Game Publication Service Management* *Regulations on Online Publication Service Administration* *Trademark Law of the People's Republic of China* *Measures for the Administration of Telecommunications Business Licensing* *Notice of the Ministry of Culture on Enhancing Afterwards Supervision and Strengthening Regulations of Online Games* *Regulations on Internet Player Account Name Administration* *Cybersecurity Law of the People's Republic of China* *Intellectual Property Rights Protection Law of the People's Republic of China* *Implementation Plan of Comprehensive Prevention and Control of Juvenile Myopia*	*3K Privacy Policies* *Regulations on Advertisement Content Review* *Regulations on Quality Inspection Works (2018 version)* *3K GM Telephone Complaint Reception Guidelines* *3K Games Advertisement Review Regulations (generic version)* *Explanation on 3K Game Player Data Destruction Procedure* *Work Flow for Player Visit (2018 version) (generic version)* *Game Work Sheet Handling Procedure of GM Customer Service Center (2018 version)* *Regulations on Daily Monitoring Works (2018 version)* *Player Group Works Guidelines* *Community Monitoring Work Regulations*

FingerTango 2018 ESG related laws, regulations, and policies

ESG Aspect	External laws and regulations	Internal policies
B7 Anti-corruption	*Law of the People's Republic of China on Anti-Unfair Competition* *Interim Provisions on Banning Commercial Bribery* *Company Law of the People's Republic of China*	*Anti-fraud Policy* All employees have received anti-corruption training.
B8 Community investment	*Charity Law of the People's Republic of China*	We pay high attention to community investment and development, with focus on aiding students and caring for the elderly. We are gradually developing policies on community to ensure sustainable development of community investment.

Appendix II ESG Data

FingerTango 2018 ESG data

ESG indicator		Unit	2018	2017
A. Environment				
A1. Emissions				
A1.2	Total volume and intensity of greenhouse gas emission			
	Total volume of greenhouse gas emission	Ton of CO_2 equivalent	229	143
	Greenhouse gas emission intensity	Ton of CO_2 equivalent/person	0.59	0.58
A1.3	Hazardous wastes generated			
	Light tube	Kg	16	17
	Cartridge	Piece	18	0
	Used battery	Kg	3.6	2.7
	Scrap IT equipment	Piece	24	0
A1.4	Hazardless wastes generated			
	Office paper	Kg	224	132
A2. Resources utilization				
A2.1	Total energy consumption and intensity			
	Total energy consumption	MWh	352	288
	Energy consumption per capita	kWh/person	921	1168
	Gasoline	Litre	11742	5033
	Outsourced electricity	kWh	351495	241046
A2.2	Water consumption and intensity			
	Office water consumption	m^3	2035	1784
	Water consumption per capita	m^3/person	5	7
B. Society				
B1. Employment				
B1.1	Number of employees: divided by gender, employment type, age, and region			
	Total number of employees	person	389	247
Gender	Male	person	244	161
	Female	person	145	86
Employment type	Development/R&D	person	187	44
	Operation	person	99	80
	Back Office	person	103	123

FingerTango 2018 ESG data

ESG indicator		Unit	2018	2017
Age	Under 30	person	334	196
	30–50	person	55	51
	Above 50	person	0	0
Region	Mainland China	person	388	247
	Hong Kong, Macau, and Taiwan	person	1	0
B2. Health and safety				
B2.1	Work-related fatalities			
	Work-related fatalities	person	0	0
	Work-related injury	Time	1	0
B2.2	Lost day due to work injury			
	General lost day due to work injury	Day	5	0
B3. Development and training				
B3.1	Employee training percentage: divided by gender and employment type			
	Total number of trained employees	Percentage	100%	88%
Gender	Male	Percentage	61%	64%
	Female	Percentage	39%	24%
Employment type	Development/R&D	Percentage	19%	17%
	Operation	Percentage	39%	20%
	Back Office	Percentage	42%	51%
B3.2	Average training hour: divided by gender and employment type			
Gender	Male	Hour/person	3.8	1
	Female	Hour/person	4.4	1
Employment type	Development/R&D	Hour/person	14.3	1
	Operation	Hour/person	1.7	1
	Back Office	Hour/person	1.4	1
B6. Produce responsibility				
B6.2	Complaints received on product and service			
	Game abnormity	Time	72	13
	Insufficient punishment	Time	22	18
	Account re-charge	Time	11	4
	GM service	Time	2	2
	Misconduct report	Time	1	0

FingerTango 2018 ESG data

ESG indicator		Unit	2018	2017
B7. Anti-corruption				
B7.1	Number of corruption lawsuits			
	Raised or concluded corruption lawsuit	Case	0	0
B8. Community investment				
B8.2	Resources utilized in focused scope			
	Public service investment	RMB	87892	N/A
	Total number of employees participating in public service activities	Person	105	N/A

Appendix III Index of Hong Kong Stock Exchange ESG Guidelines

ESG KPI	Guideline requirement	Chapter of report/statement
A1: Emissions	General disclosure	N/A (Gas emission is not a material scope to the company operation)
	A1.1 Types of emissions and relevant data	Social Contribution and Environmental Protection — Green Operation
	A1.2 Total greenhouse gas emissions and density	Social Contribution and Environmental Protection — Green Operation
	A1.3 Total hazardous wastes produced and density	Social Contribution and Environmental Protection — Green Operation
	A1.4 Total non-hazardous wastes produced and density	Social Contribution and Environmental Protection — Green Operation
	A1.5 Describe the measures to reduce emissions, and the results.	Social Contribution and Environmental Protection — Green Operation
	A1.6 Describe the method of handling hazardous and non-hazardous wastes, reduction initiatives and results achieved	Social Contribution and Environmental Protection — Green Operation
A2: Use of resources	General disclosure	Social Contribution and Environmental Protection — Green Operation
	A2.1 Total consumption of direct and (or) indirect energy classified by type and density	Social Contribution and Environmental Protection — Green Operation
	A2.2 Total water consumption and density	Social contribution and environmental protection
	A2.3 Describe the plan of energy use efficiency, and the results.	Social contribution and environmental protection
	A2.4 Describes if there is any problem in seeking for the applicable water source, and the plan of improving the water use efficiency, and the results.	Social contribution and environmental protection
	A2.5 Total amount of packaging materials used for finished goods and amount of per production unit.	N/A
A3: Environment and natural resources	General disclosure	Social Contribution and Environmental Protection — Green Operation
	A3.2 Describe the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Social Contribution and Environmental Protection — Green Operation

Appendix III Index of Hong Kong Stock Exchange ESG Guidelines

ESG KPI	Guideline requirement	Chapter of report/statement
B1: Employment	General disclosure	Employee Care — Recruitment Convention
	B1.1 Total number of employees by gender, employment type, age group and the regional division.	Employee Care — Recruitment Convention
	B1.2 Employee turnover rate by gender, age group and the regional division.	Employee Care — Recruitment Convention
B2: Health and safety	General disclosure	Employee Care — Occupational Health and Safety
	B2.1 Number and rate of work-related fatalities.	Appendix II
	B2.2 Lost days due to work injury.	Appendix II
	B2.3 Describe occupational health and safety measures adopted, how they are implemented and monitored.	Employee Care — Occupational Health and Safety
B3: Development and training	General disclosure	Employee Care — Training and Development
	B3.1 Percentage of trained employees classified by gender and employee category.	Employee Care — Training and Development
	B3.2 Average training hours per employee classified by gender and employee category.	Appendix II
B4: Labor guidelines	General disclosure	Employee Care — Recruitment Convention
	B4.1 Describe measures to review employment practices to avoid child and forced labor.	Employee Care — Recruitment Convention
	B4.2 Describe steps taken to eliminate such practices when discovered.	Employee Care — Recruitment Convention
B5: Supply chain management	General disclosure	Employee Care — Occupational Health and Safety
	B5.2 Describe the practices of hiring suppliers, number of suppliers to whom the practices are performed, and the methods of executing and supervising related practices.	Employee Care — Occupational Health and Safety

ESG KPI	Guideline requirement	Chapter of report/statement
B6: Product responsibility	General disclosure	Product and Service
	B6.1 Percentage of sold or shipped products to be recalled due to safety and health reasons.	Product and Service
	B6.2 Number of received complaints about products and services and the methods of dealing with the complaints.	Product and Service
	B6.3 Describe the practices related to the maintenance and protection of intellectual property rights.	Product and Service — Intellectual Property Rights Protection
	B6.4 Describe the quality verification process and product recycling program.	Product and Service
	B6.5 Describe consumer data security and privacy policy, and related implementation and supervision methods.	Product and Service — Privacy Protection
B7: Anti-corruption	General disclosure	Employee Care — Training and Development
	B7.1 Number of corruption lawsuits and the result of litigation during the period of reporting to the issuer or its employees.	Appendix II
	B7.2 Describe the preventive measures and reporting procedures, and related implementation and supervision methods.	Employee Care — Training and Development
B8: Community investment	General disclosure	Social Contribution and Environmental Protection — Public Service and Charity
	B8.1 Focus on contribution category.	Social Contribution and Environmental Protection — Public Service and Charity
	B8.2 Use of resources in focused categories.	Social Contribution and Environmental Protection — Public Service and Charity

Independent Auditor's Report

To the Shareholders of FingerTango Inc.
(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of FingerTango Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 151, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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") 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 International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

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

Key audit matter identified in our audit relates to revenue and cost recognition — estimates of playing period of paying players ("Player Relationship Period") of the Group's game publishing services.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue and cost recognition — estimates of Player Relationship Period in the Group's game publishing service. Refer to Note 2.18, 4.1(a), 5, 6 and 22 to the consolidated financial statements. The Group is engaged in publishing third party/self-owned games to game players through third party and self-operated platforms. Revenue derives from sales of in-game virtual items and is recognised ratably over the Player Relationship Period as the Group has a continuing implied obligation to game developers and game players. Commissions charged by platforms are recognised in cost of revenue ratably over the Player Relationship Period as the platforms have similar obligations to the Group. In addition, the Group pays commissions to third party game programmers who are sub-contractors of the Group's self-owned game. The commissions are also recognised in cost of revenue ratably over the Player Relationship Period. During the year ended 31 December 2018, the Group's revenue from game publishing amounted to RMB1,085,931,000. The balance of unearned revenue recognised as contract liabilities (defined in Note 2.18) amounted to RMB144,989,000 as at 31 December 2018, representing 50.5% of the Group's total liabilities as at the same date.	We understood and evaluated the key internal controls in relation to the assessment of the Player Relationship Period. We, on a sample basis, validated key internal controls in respect of the assessment of the Player Relationship Period, including management's review and approval of i) determination of the estimated Player Relationship Period of new games; and (ii) changes in the estimated Player Relationship Period of existing games based on periodic reassessment on any indications triggering such changes. We validated the data generated from the Group's information system used for the assessment of the Player Relationship Period, including testing the information technology general controls and verifying the data integrity. We evaluated the reasonableness of key assumptions applied in the determination of Player Relationship Period by comparing the Group's game profile with existing games category and assessing the variation on profile of target audience and players of different demographics groups. We tested the accuracy of revenue and cost of revenue by confirming the sales proceeds amount with the platforms, testing the reconciliation between cash received and sales proceeds, and checking the commission percentage charged by platforms and third party game programmers to the contract, on a sample basis.

Key Audit Matters (continued)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
During the year ended 31 December 2018, the commission charged by platforms and game programmers (where the Group is the game owner) amounted to RMB387,729,000 and RMB27,867,000 respectively. The balance of unamortised cost recognised as contract costs (defined in Note 2.18) amounted to RMB59,980,000 as at 31 December 2018, representing 3.7% of the Group's total assets as at the same date. The Group determines the Player Relationship Period on a game-by-game basis taking into account all known and relevant information at the time of assessment. We focused on this area due to the fact that management applied significant judgements and estimation in determining the Player Relationship Period of each game. These judgements and estimation included: (i) the determination of key assumptions applied in the Player Relationship Period, including but not limited to the games profile, target audience and players of different demographic groups; (ii) the identification of events that may trigger changes in the Player Relationship Period; and (iii) the estimation of Player Relationship Period of newly launched games by considering the performance of similar types of games.	We tested the result of Player Relationship Period by re-performing the computation, on a sample basis. We compared the current Player Relationship Period with the results of prior years to assess the reasonableness of the original estimation, on a sample basis. We compared the newly launched games with existing game profile and assessed the reasonableness of the Player Relationship Period by comparing it with the results of similar types of games, on a sample basis. We recalculated revenue and contract liabilities, cost of revenue and contract costs based on the respective Player Relationship Period of each game on a sample basis. Based on the above, we found that the significant judgement and estimates involved in determining the Player Relationship Periods adopted by management were supported by the evidence we obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of 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 Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible 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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chu Wang Hay.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	5	**1,085,931**	1,197,230
Cost of revenue	6	**(444,306)**	(472,853)
Gross profit		**641,625**	724,377
Selling and marketing expenses	6	**(324,974)**	(389,771)
Administrative expenses	6	**(102,757)**	(29,168)
Research and development expenses	6	**(54,600)**	(42,020)
Other income	8	**6,292**	7,788
Other gains/(losses), net	9	**2,398**	(294)
Operating profit		**167,984**	270,912
Finance income	10	**8,647**	1,692
Profit before income tax		**176,631**	272,604
Income tax expense	11	**(21,036)**	(31,812)
Profit for the year attributable to owners of the Company		**155,595**	240,792
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
— Currency translation differences	26	**26,575**	—
Items that will not be subsequently reclassified to profit or loss:			
— Changes in fair value of financial assets at fair value through other comprehensive income	26	**(10,000)**	—
— Corresponding income tax effect	26	**2,500**	—
Other comprehensive income for the year, net of tax		**19,075**	—
Total comprehensive income attributable to owners of the Company		**174,670**	240,792
Earnings per share (expressed in RMB per share)	12		
— Basic		**0.0932**	0.1690
— Diluted		**0.0928**	0.1690

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property and equipment	14	11,752	9,281
Intangible assets	15	5,616	1,498
Financial assets at fair value through other comprehensive income	18	1,200	11,200
Financial assets at fair value through profit or loss	17	97,368	—
Prepayments and other receivables	19	21,402	17,417
Deferred tax assets	20	27,329	28,522
Total non-current assets		164,667	67,918
Current assets			
Trade receivables	21	163,760	157,715
Prepayments and other receivables	19	93,568	55,301
Contract costs	22	59,980	70,394
Financial assets at fair value through profit or loss	17	309,233	—
Cash and cash equivalents	23	831,216	573,761
Total current assets		1,457,757	857,171
Total assets		1,622,424	925,089
EQUITY AND LIABILITIES			
Equity			
Share capital	24	65	—
Share premium	24	794,690	—
Shares held for restricted share unit ("RSU") scheme	25	(2)	—
Reserves	26	142,024	195,525
Retained earnings		398,755	356,466
Total equity		1,335,532	551,991

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Liabilities			
Current liabilities			
Trade payables	28	65,228	102,234
Contract liabilities	22	144,989	174,757
Current income tax liabilities		34,327	31,771
Other payables and accruals	29	42,348	64,336
Total current liabilities		286,892	373,098
Total liabilities		286,892	373,098
Total equity and liabilities		1,622,424	925,089

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 81 to 151 were approved by the Board of Directors on 28 March 2019 and were signed on its behalf.

Liu Jie
Director

Liu Zhanxi
Director

Consolidated Statement of Changes in Equity

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for the RSU scheme RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		–	–	–	195,525	356,466	551,991
Comprehensive income							
Profit for the year		–	–	–	–	155,595	155,595
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	26	–	–	–	(7,500)	–	(7,500)
Currency translation differences	26	–	–	–	26,575	–	26,575
Total comprehensive income for the year		–	–	–	19,075	155,595	174,670
Transaction with owners in their capacity as owners							
Issuance of ordinary shares	24(e)	65	822,189	–	–	–	822,254
Repurchase and cancellation of ordinary shares	24(f)	–	(27,499)	–	–	–	(27,499)
Ordinary shares allotted and issued for RSU scheme	25	–	–	(2)	2	–	–
Shares repurchase from strategy investors	26(a)	–	–	–	(150,510)	(113,306)	(263,816)
Employee share-based compensation scheme	27	–	–	–	77,932	–	77,932
Total transactions with owners in their capacity as owners		65	794,690	(2)	(72,576)	(113,306)	608,871
Balance at 31 December 2018		65	794,690	(2)	142,024	398,755	1,335,532

	Note	Share capital RMB'000	Share premium RMB'000	Shares held for the RSU scheme RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2017		—	—	—	54,688	176,511	231,199
Comprehensive income							
Profit for the year		—	—	—	—	240,792	240,792
Total comprehensive income for the year		—	—	—	—	240,792	240,792
Transaction with owners in their capacity as owners							
Appropriation to statutory reserves	26(c)	—	—	—	5,837	(5,837)	—
Capital contribution from strategy investors	26(a)	—	—	—	135,000	—	135,000
Dividends declared and paid	13	—	—	—	—	(55,000)	(55,000)
Total transactions with owners in their capacity as owners		—	—	—	140,837	(60,837)	80,000
Balance at 31 December 2017		—	—	—	195,525	356,466	551,991

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	142,844	292,925
Interest received		8,223	1,692
Income tax paid		(14,787)	(1,802)
Net cash generated from operating activities		136,280	292,815
Cash flows from investing activities			
Purchases of intangible assets		(3,122)	—
Purchases of property and equipment		(6,238)	(7,661)
Prepayments for purchases of property and equipment and intangible assets		(12,787)	(16,734)
Purchases of financial assets at fair value through other comprehensive income		(10,000)	(600)
Purchases of financial assets at fair value through profit or loss		(397,639)	(1,060,333)
Proceeds from disposal of financial assets at fair value through profit or loss		—	1,072,333
Investment income received		—	6,010
Proceeds from disposal of property and equipment		—	274
Addition of short-term deposits		—	(50,000)
Release of short-term deposits		—	50,000
Interest income received		—	820
Net cash used in investing activities		(429,786)	(5,891)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares relating to the initial public offering	24(e)	879,957	—
Payments for issuance costs of ordinary shares relating to the initial public offering	24(e)	(57,751)	—
Payments for repurchase of ordinary shares	24(f)	(27,499)	—
Share repurchase from strategy investors	26(a)	(263,816)	—
Capital contribution from strategy investors	26(a)	—	135,000
Dividends paid	13	—	(55,000)
Net cash generated from financing activities		530,891	80,000
Net increase in cash and cash equivalents		237,385	366,924
Cash and cash equivalents at the beginning of the year		573,761	212,817
Effects of exchange rate changes on cash and cash equivalents		20,070	(5,980)
Cash and cash equivalents at the end of the year	23	831,216	573,761

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 General information

FingerTango Inc. (the "Company") was incorporated in the Cayman Islands on 9 January 2018 as an exempted company with limited liability. The address of the Company's registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the development, operation and publishing of mobile game business (the "Publishing Business") in the People's Republic of China (the "PRC"). Mr. Liu Jie ("Mr. Liu") and Mr. Zhu Yanbin ("Mr. Zhu") (collectively as the "Founders") are the founders of the Group. The ultimate holding company of the Company is LJ Technology Holding Limited ("LJ Holding"). The ultimate controlling party of the Group is Mr. Liu.

The Group's Publishing Business is carried out through several domestic operating companies, incorporated in the PRC, namely Shanghai Youmin Networks Technology Co., Limited ("Youmin Networks") and its subsidiaries (collectively, the "PRC Operating Entities").

To prepare for the listing on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent a reorganisation (the "Reorganisation") pursuant to which the beneficial interests in the companies engaged in the Publishing Business were transferred to the Company.

FT Entertainment Limited and FingerTango Interactive (HK) Limited, the intermediate holding companies of the Group, were incorporated on 10 January 2018 and 17 January 2018, respectively. On 16 March 2018, Shanghai Binyou Networks Technology Co., Ltd. ("FT WFOE") was established as a wholly foreign owned enterprise in the PRC and is wholly owned by the intermediate holding companies.

Pursuant to the applicable PRC laws and regulations, foreign investors are restricted from conducting value-added telecommunications services or holding equity interest in an entity conducting such services in China.

Pursuant to a series of agreements signed on 24 March 2018 (the "Contractual Arrangements") among FT WFOE, Youmin Networks and its legally registered equity holders, FT WFOE acquired effective control over the financial and operational policies of the PRC Operating Entities and became entitled to the entire economic benefits generated by the PRC Operating Entities. Accordingly, Youmin Networks and its subsidiaries were accounted for as subsidiaries of FT WFOE and the Reorganisation was completed.

On 12 July 2018, the Company completed the initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO").

These financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors (the "Board") of the Company on 28 March 2019.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to consolidated financial statements, are disclosed in Note 4 below.

(a) New and amended standards adopted by the Group

IFRS 9 "Financial Instruments" ("IFRS 9") and IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") are mandatorily effective for annual periods beginning on or after 1 January 2018. The Group has elected to early adopt IFRS 9 and IFRS 15. The adoption has been applied consistently in the financial statements throughout the years ended 31 December 2018 and 2017.

The Group has applied the following amendments and interpretations for the first time for their annual reporting period commencing 1 January 2018:

- Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
- Annual Improvements 2014–2016 cycle
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The amendments and interpretations listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Impact of new standards, amendments and interpretations issued but not yet adopted by the Group

Certain new standards, amendments and interpretations have been published that are not mandatory for the year ended 31 December 2018 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Annual Improvements to IFRSs (Amendments)	Annual improvements to IFRSs 2015 – 2017 cycle	1 January 2019
IFRS 3 (Amendment)	Definition of a business	1 January 2020
IFRS 9 (Amendment)	Prepayment features with negative Compensation	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
IAS 19 (Amendment)	Plan amendment, curtailment or settlement	1 January 2019
IAS 28 (Amendment)	Long-term interests in associates and joint ventures	1 January 2019
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group's assessment of the impact of these new standards, amendments and interpretations is set out below.

(i) IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Impact of new standards, amendments and interpretations issued but not yet adopted by the Group (continued)

(i) IFRS 16 Leases (continued)

The Group has reviewed all of the Group's leasing arrangements in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB5,911,000 (Note 32).

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liabilities on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact to the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (continued)

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker ("CODM").

The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HKD"). The Company's primary subsidiaries were incorporated in the PRC and these subsidiaries considered RMB as their functional currency. As the major operations of the Group are within the PRC, the Group determined to present its consolidated financial statements in RMB (unless otherwise stated).

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

2 Summary of significant accounting policies (continued)

2.5 Foreign currency translation (continued)

(b) Transactions and balances (continued)

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statements of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains/(losses), net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2 Summary of significant accounting policies (continued)

2.6 Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

Servers and other equipment	3–5 years
Motor vehicles	4 years
Leasehold improvements	Estimated useful lives or remaining lease terms, whichever is shorter

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These are included in profit or loss within "other gains/(losses), net".

2 Summary of significant accounting policies (continued)

2.7 Intangible assets

(a) Licenses

Under certain exclusive online mobile games arrangements entered between the Group and the game developers, the Group pays upfront license fees to the game developers to obtain an exclusive right to operate the games in specified geographic areas for a certain period of time. The Group recognises the exclusive license fee as an intangible asset. The intangible asset is amortised on a straight-line basis upon the commercial launch of the related online mobile games over the shorter of the estimated economic game life and the license period of the games, which range from 2 to 5 years. The amortisation is expensed to cost of revenue (where the Group is a principal to the game player) or offset against the revenue (where the Group is acting as an agent to the game developer).

(b) Other intangible assets

Other intangible assets mainly include computer software. They are initially recognised and measured at cost and amortised over their estimated useful lives using the straight-line method, which reflects the pattern in which the intangible asset's future economic benefits are expected to be consumed.

(c) Research and development expenditures

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled. These criteria includes: (1) it is technically feasible to complete the product so that it will be available for use; (2) management intends to complete the product and use or sell it; (3) there is an ability to use or sell the product; (4) it can be demonstrated how the product will generate probable future economic benefits; (5) adequate technical, financial and other resources to complete the development and to use or sell the product are available; and (6) the expenditure attributable to the product during its development can be reliably measured. Other development expenditures that do not meet those criteria are recognised as expenses as incurred.

Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their useful lives.

Research and development expenses consist primarily of (i) salary and benefits for the Group's research and development personnel, and (ii) the technology outsourcing payment to third-party companies.

As at 31 December 2018 (2017: Nil), there were no development costs meeting these criteria and capitalised as intangible assets.

2 Summary of significant accounting policies (continued)

2.8 Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.9 Investments and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

2.9 Investments and other financial assets (continued)

(c) Measurement

At initial recognition, the Group 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 that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses or reverse of such losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment losses are presented as a separate line item in profit or loss.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

2 Summary of significant accounting policies (continued)

2.9 Investments and other financial assets (continued)

(c) Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in fair value of financial assets at fair value through profit or loss are recognised in other gains/(losses) as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(d) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and financial assets at fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1(b) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, that is to measure the loss allowance at the amount equal to lifetime expected credit loss at initial recognition. The Group uses practical expedients when estimating lifetime expected credit losses on trade receivables, which is calculated using a provision matrix where a fixed provision rate applies depending on the number of days that a trade receivable is outstanding.

2.10 Trade receivables

Trade receivables are amounts due from third party distribution platforms ("Platforms") or payment channels for proceeds earned from selling game tokens and other virtual items (Note 2.18). If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 21 for further information about the Group's accounting for trade receivables and Note 2.9 for a description of the Group's impairment policies.

2 Summary of significant accounting policies (continued)

2.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand and deposits at call with banks and other financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the considerations paid, including any directly attributable incremental transaction costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs) is included in equity attributable to the Company's equity holders.

2.13 Trade and other payables

Trade payables represent payment received from game players and to be reimbursed to the game developers. The amounts are unsecured and are usually paid within 30 to 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair values and subsequently measured at amortised cost using the effective interest method.

2.14 Current and deferred income tax

The income tax expense or credit for the period is the tax payable or recoverable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2 Summary of significant accounting policies (continued)

2.14 Current and deferred income tax (continued)

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2 Summary of significant accounting policies (continued)

2.15 Employee benefits

(a) Defined contribution plans

The Group's subsidiaries incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefit plan and other defined contribution social security plans organised by relevant government authorities in the PRC on a monthly basis. Employees of the Group in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group contributes funds which are calculated on a fixed percentage of the employees' salary (subject to a floor and cap) as set by local municipal governments to each scheme locally to fund the retirement benefits of the employees. The government authorities undertake to assume the retirement benefit obligations payable and other social security payables to all existing and future retired employees under these plans and the Group has no further obligation beyond the contributions made. Contributions to these plans are expensed as incurred. Assets of the plans are held and managed by government authorities and are separate from those of the Group.

(b) Bonus plans

The expected cost of bonuses is recognised as a liability when the Group has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

(c) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2 Summary of significant accounting policies (continued)

2.16 Share-based payments

(a) Equity-settled share-based compensation transactions

The Group operates a restricted share unit scheme ("RSU Scheme"), which is an equity-settled shared-based compensation plan under which share awards are granted to employees as part of their remuneration packages.

The fair value of the employee services received in exchange for the grant of the share-based awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share-based awards granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of reporting period, the Group revises its estimates of the number of share-based awards that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

2.17 Provisions

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2 Summary of significant accounting policies (continued)

2.18 Revenue recognition

Revenues are recognised when or as the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time.

Game publishing service revenue

The Group is a publisher of online mobile games developed by third party game developers or its own through commissioned development arrangements. The Group licenses online games from game developers and earns game publishing service revenue by publishing them to the game players through Platforms, include major online platforms and application stores (installed in mobile telecommunications devices), and its self-operated platform. The games licensed to the Group are operated under a free-to-play model whereby game players can play the games free of charge and are charged for the purchase of virtual items via payment channels, such as the various mobile carriers and third-party internet payment systems (collectively referred to as "payment channels").

(i) Principal Agent Consideration

Third party developed games

Proceeds earned from selling game tokens and other virtual items are shared between the Group and game developers, with the amount payable to game developers generally calculated based on face value of game tokens or other virtual items determined by game developers, after deducting certain deductible fees and multiplied by a predetermined percentage for each game. The deductible fees are predetermined and negotiated game by game, including the fees to be shared with the Platforms and payment handling costs charged by the payment channels.

2 Summary of significant accounting policies (continued)

2.18 Revenue recognition (continued)

Game publishing service revenue (continued)

(i) Principal Agent Consideration (continued)

Third party developed games (continued)

With respect to the Group's licensed games, the game developers have the primary responsibilities for the hosting and maintenance of the game servers and providing the game content to the game players and have the right to determine the pricing of in-game virtual items and the specification, modification or any update of the game themselves or as proposed by the Group. The Group's responsibilities to the game developers are publishing, providing payment solution, market promotion service, customer service and maintaining the access portal network. Both the game developers and the Group have responsibilities to ensure the game players can continue to gain access to the mobile game to get the games experience and benefit after the sale of the virtual items. Therefore, the Group's service obligations as a publisher to the game developers are also directly linked to each user's engagement. The Group views both game developers and game players to be its customers. The Group considers for each sharing of payment made by the game player, it has implied obligation to maintain the access portal network for certain period for the game player to access to the game. Accordingly, the Group records the game publishing service revenue from in-game payments for these licensed games, net of amounts paid to game developers and recognised the revenue over the Player Relationship Period as detailed in Note 2.18 (ii).

The Group published games on its self-operated platform and via cooperation with the Platforms, under which the Group is responsible for determining the Platforms and payment channels, and providing customer services as well as marketing activities. For games self-operated by the Group, payment channels are responsible for payment collections. For games cooperated with the Platforms, the Platforms are responsible for distribution, platform maintenance, paying player authentication and payment collections related to the games.

As the Group is solely responsible for identifying, contracting with and maintaining the relationships of the Platforms and payment channels, commission fees payable to the Platforms and payment channels are included in cost of revenues and presented on a gross basis. The Group considers it is the primary obligor to the game developers for the reasons identified above as it has been given latitude by the game developers in selecting different Platforms and payment channels for its services to the game developers.

Different from the above analysis, for games cooperated with Apple App, the game developers are fully aware of Apple App's roles and responsibilities. The Group considered that Apple App and itself provide services to the game developers together, as the Group does not have the latitude in selecting and negotiating with Apple App and does not have the primary responsibility to game developers for the service provided by them. Commissions charged by Apple App are deducted from revenue.

2 Summary of significant accounting policies (continued)

2.18 Revenue recognition (continued)

Game publishing service revenue (continued)

(i) Principal Agent Consideration (continued)

Commissioned-developed games

The Group commissioned third-party game programmers to develop mobile games based on the Group's instruction. Under the game development and operation arrangement, the Group owns the commissioned-developed games' copyrights and other intellectual property, and takes primary responsibilities of game development and game operation, including designing, development, and updating of the games including the game content, as well as the pricing of virtual items, providing on-going updates of new contents and bug fixing, determining the Platforms and payment channels, and providing customer services. Under this type of agreement, the Group considers itself the principal in this arrangement to the game players. Accordingly, the Group records the online game revenue from these games on a gross basis. Commission fees payable to the game programmers and the Platforms, and payment handling costs charged by payment channels are recorded as cost of revenue.

(ii) Timing of revenue recognition

Third party developed games

As detailed in Note 2.18 (i), the Group has a continuing implied obligation to game developers and game players, therefore, for the purposes of determining when services have been provided to the respective players, the Group estimates the Player Relationship Period on a game-by-game basis and re-assesses such periods semi-annually. Revenues of game publishing service are recognised ratably over the Player Relationship Period for a specific game. If there are insufficient data to determine the Player Relationship Period, such as in the case of a newly launched game, it estimates the Player Relationship Period based on other similar types of games developed by third-party developers until the new game establishes its own patterns and history. The Group considers the games profile, target audience, and its appeal to players of different demographics groups in estimating the Player Relationship Period.

Commissioned-developed games

Revenue of commissioned-developed games are recognised ratably over the Player Relationship Period or as the consumable virtual items are consumed.

2 Summary of significant accounting policies (continued)

2.18 Revenue recognition (continued)

Game publishing service revenue (continued)

(ii) Timing of revenue recognition (continued)

Commissioned-developed games (continued)

If the Group does not have the ability to differentiate revenue attributable to durable virtual items from consumable virtual items for a specific game, the Group recognises revenue from both durable and consumable virtual items for that game ratably over the Player Relationship Period, which is similar to the policy for timing of revenue recognition of third party developed games.

Contract costs and contract liabilities

Contract liabilities primarily consists of the unearned revenue from sales of virtual items for mobile games, where there is still an implied obligation to be fulfilled by the Group over time.

Contract costs are mainly related to contract acquisition costs, which primarily consists of unamortised commissions charged by the Platforms and game programmers.

2.19 Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding shares held for employee share scheme.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2 Summary of significant accounting policies (continued)

2.20 Interest income

Interest income from financial assets at fair value through profit or loss is included in other gains/(losses), net.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.21 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

2.22 Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the leases.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise the potential adverse effects on the financial performance of the Group.

Risk management policies are approved by the board of directors and executed by the senior management of the Group.

(a) Market risk

(i) Foreign exchange risk

The Group's subsidiaries primarily operate in the PRC with most transactions denominated in either RMB or United States dollars ("USD"). The Group is exposed to foreign exchange risk primarily through sales and purchases transactions that are denominated in a currency other than the functional currency of the relevant subsidiary. The Group considers its foreign currency exposure mainly arises from the asset and liabilities denominated in USD held by the Group's subsidiaries in the PRC. The Company held certain assets denominated in USD. As Hong Kong dollars is pegged to USD, the Group believes the exposure to transactions denominated in USD with a functional currency of HKD to be insignificant.

The Group manages its exposure to foreign currency transaction by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group also regularly reviews the portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

As at 31 December 2018, if USD had strengthened/weakened by 5% against RMB with all other variables held constant, post-tax profit for the year would have been approximately RMB5,110,000 (2017: RMB4,574,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of USD denominated cash and cash equivalents and receivables of the Group's companies in the PRC.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Other than interest-bearing cash and cash equivalents and financial assets at fair value through profit or loss, the Group has no other significant interest-bearing assets. The directors of the Company do not anticipate there is any significant impact to interest-bearing assets resulted from the changes in interest rates, because the interest rates of bank balances are not expected to change significantly.

The Group does not have any interest-bearing liabilities and does not anticipate there is any significant exposure of interest rate risk.

(iii) Price risk

The Group is exposed to price risk in respect of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income held by the Group which are carried at fair value with changes in fair value recognised in profit or loss and other comprehensive income, respectively.

To manage its price risk arising from investments, the Group diversifies its portfolio. Diversification of the portfolio is achieved in accordance with the limits set by the Group. Each investment is managed by senior management on a case by case basis. If the fair value of the investments held by the Group had increased/decreased by 5% with all other variables held constant, profit before income tax for the year ended 31 December 2018 would have been approximately RMB20,330,000 (2017: Nil) higher/lower and other comprehensive income for the year ended 31 December 2018 would have been approximately RMB60,000 (2017: RMB560,000) higher/lower.

(b) Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, trade and other receivables and financial assets at fair value through profit or loss. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. To manage this risk arising from cash and bank deposits and wealth management products, the Group only transacts with reputable financial institutions in the PRC and reputable international financial institutions outside of the PRC. There has been no recent history of default in relation to these financial institutions.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Individual balances of trade receivables exceeding 10% of the Group's total trade receivables as at 31 December 2018 accounted for approximately 53.2% of the Group's total trade receivables (2017: 56.9%).

Trade receivables are due from Platforms and payment channels in cooperation with the Group. If the strategic relationship with the Platforms and payment channels is terminated or scaled-back; or if the Platforms and payment channels alter the co-operative arrangements; or if they experience financial difficulties in paying the Group, the Group's game publishing receivables might be adversely affected in terms of recoverability. To manage this risk, the Group maintains frequent communications with the Platforms and payment channels to ensure the effective credit control. In view of the history of cooperation with the Platforms and payment channels and the sound collection history of receivables due from them, the directors of the Company believe that the credit risk inherent in the Group's outstanding trade receivable balances due from the Platforms and payment channels is low.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

(c) Liquidity risk

The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying businesses, the Group's finance department maintains flexibility in funding by maintaining adequate cash and cash equivalents.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Total RMB'000
At 31 December 2018		
Trade payables, other payables and accruals (excluding salary and staff welfare payables and other taxes payables)	77,895	77,895
At 31 December 2017		
Trade payables, other payables and accruals (excluding salary and staff welfare payables and other taxes payables)	126,148	126,148

3.2 Capital management

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

The Group monitors capital (including share capital and capital reserves) by regularly reviewing the capital structure. As a part of this review, the directors of the Company consider the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. In the opinion of the directors of the Company, the Group's capital risk is low.

3 Financial risk management (continued)

3.3 Fair value estimation

Certain of the Group's financial instruments are carried at fair value as at balance sheet dates and are classified by different levels of inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured and recognised at fair value as at 31 December 2018 on a recurring basis:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through profit or loss (Note 17)				
— Debt instruments	—	—	88,068	88,068
— Equity instruments	—	—	9,300	9,300
	—	—	97,368	97,368
Financial assets at fair value through other comprehensive income				
— equity instruments (Note 18)	—	—	1,200	1,200
Short-term investments				
— Financial assets at fair value through profit or loss (Note 17)				
— Debt instruments	—	—	309,233	309,233
	—	—	407,801	407,801

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 December 2017:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets:				
Long-term investments				
— Financial assets at fair value through other comprehensive income (Note 18)	—	—	11,200	11,200

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and equity securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(c) Financial instruments in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to determine the fair value of financial instruments include:

- Dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis.

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The Group has a team that manages the valuation exercise of level 3 financial instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case-by-case basis. At least twice every year, the team would use valuation techniques to determine the fair value of the Group's level 3 financial instruments. External valuation experts will be involved when necessary.

The level 3 financial instruments of the Group include investments in bank wealth management products and unlisted company investments.

Financial assets at fair value through profit or loss as at 31 December 2018 primarily represent unlisted wealth management products issued by funds with the expected return rate ranging from 1.5% to 5%.

Equity instruments recognised in financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as at 31 December 2018 represented investments in private companies. The Group used income method of discounted cash flows to determine the fair value of these financial instruments. The fluctuation of unobservable input would not have a significant impact on the fair value of above financial instruments.

The following table presents the changes in level 3 financial instruments of financial assets at fair value through profit or loss for the year ended 31 December 2018:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**—**	12,000
Additions	**397,789**	1,060,333
Disposals	**—**	(1,072,333)
Changes in fair value	**3,008**	—
Currency translation differences	**5,804**	—
At the end of the year	**406,601**	—
Maximum exposure to credit risk	**397,301**	—

3 Financial risk management (continued)

3.3 Fair value estimation (continued)

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 financial instruments of financial assets at fair value through other comprehensive income for the year ended 31 December 2018:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**11,200**	1,200
Additions	**—**	10,000
Changes in fair value	**(10,000)**	—
At the end of the year	**1,200**	11,200

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimates of the Player Relationship Period in the Group's game publishing services

As described in Note 2.18(ii), the Group recognises revenue from virtual items ratably over the Player Relationship Period. The determination of Player Relationship Period of each game is based on the Group's best estimate that takes into account all known and relevant information at the time of assessment. Such estimates are subject to re-evaluation on a semi-annual basis. Any adjustments arising from changes in the Player Relationship Period as a result of new information will be accounted for prospectively as a change in accounting estimate.

4 Critical accounting estimates and judgments (continued)

4.1 Critical accounting estimates and assumptions (continued)

(b) Income taxes

Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made.

(c) Revenue recognition

Pursuant to game publishing and operation arrangements signed between the Group and the third party game developers or Platforms, the Group's responsibilities in publishing and operating the licensed or commissioned-developed games vary for each game. The determination of whether to record these revenues using gross or net basis is based on an assessment of various factors, including but not limited to whether the Group (i) is the primary obligor to the game developers and game players in the arrangements; (ii) has latitude in establishing the selling price of virtual items; (iii) changes the products or performs part of the services; (iv) has involvement in the determination of product and service specifications; and (v) has the rights to determine secondary Platforms and payment channels.

(d) Contractual Arrangements

The Group conducts its business through Youmin Networks and its subsidiaries in the PRC. Due to the regulatory restrictions on the foreign ownership of the Publishing Business in the PRC, the Group does not have any equity interest in Youmin Networks. The Directors assessed whether or not the Group has control over Youmin Networks and its subsidiaries by assessing whether it has the rights to variable returns from its involvement with Youmin Networks and its subsidiaries and has the ability to affect those returns through its power over Youmin Networks and its subsidiaries. After assessment, the Directors concluded that the Group has control over Youmin Networks and its subsidiaries as a result of the Contractual Arrangements and accordingly the financial position and the operating results of Youmin Networks and its subsidiaries are included in the Group's consolidated financial statements. Nevertheless, the Contractual Arrangements may not be as effective as direct legal ownership in providing the Group with direct control over Youmin Networks and its subsidiaries and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of Youmin Networks and its subsidiaries. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements with Youmin Networks and its equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

5 Revenue and segment information

The Group's CODM has been identified as its executive directors, who review the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole. Therefore, the Group has only one reportable segment. The Group does not distinguish between markets or segments for the purpose of internal reporting. The Group's long-lived assets are substantially located in the PRC and substantially all of the Group's revenues are derived from the PRC. Therefore, no geographical segments are presented.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Self-publishing	**520,640**	571,325
Co-publishing	**565,291**	625,905
	1,085,931	1,197,230

The Group has a large number of game players. No revenue from any individual game player exceeded 10% or more of the Group's revenue during the year ended 31 December 2018 (2017: Nil).

The following table summarises the percentage of revenue from games licensed by a single game developer exceeding individually 10% of the Group's revenue during the year ended 31 December 2018.

	Year ended 31 December	
	2018	2017
A	**29.1%**	34.6%
B	**10.9%**	15.9%
C	*	16.0%

* The amount of revenue from the game developer was less than 10% of the total revenue for the relevant year.

6 Expenses by nature

Expenses included in cost of revenue, selling and marketing expenses, administrative expenses and research and development expenses are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Commissions charged by Platforms	**387,729**	435,542
Promotion expenses	**284,876**	382,711
Employee benefit expenses (Note 7)	**150,931**	43,027
Commissions charged by game developers in relation to commissioned developed games	**27,867**	17,292
Listing expenses	**20,819**	5,746
Office rental expenses	**8,078**	5,315
Provision for impairment of prepayments (Note 19)	**7,453**	—
Office expenses	**6,372**	3,514
Service fees	**4,095**	3,436
Payment handling costs charged by payment channels	**3,936**	3,923
Depreciation of property and equipment (Note 14)	**3,767**	2,252
Auditor's remuneration		
— Audit services	**3,000**	500
— Non-audit services	**210**	—
Provision for impairment of trade receivables (Note 21)	**158**	1,635
Outsourcing research and development expenses	**—**	16,311
Others	**17,346**	12,608
	926,637	933,812

7 Employee benefit expenses

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**59,304**	32,638
Pension costs — defined contribution plans	**4,578**	3,522
Social security costs, housing benefits and other employee benefits	**9,117**	6,867
Share-based compensation (Note 27)	**77,932**	—
	150,931	43,027

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include 2 directors whose emoluments are reflected in the analysis shown in Note 34 (2017: Nil). The emoluments paid or payable to the remaining 3 individuals (2017: 5) are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages, salaries and bonuses	**1,976**	2,955
Pension costs — defined contribution plans	**96**	153
Social security costs, housing benefits and other employee benefits	**116**	184
Share-based compensation	**8,325**	—
	10,513	3,292

7 Employee benefit expenses (continued)

(a) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2018	2017
Emolument band		
Nil–HKD1,000,000	**–**	5
HK$3,500,001–HK$4,000,000	**1**	–
HK$4,000,001–HK$4,500,000	**2**	–
	3	5

During the year ended 31 December 2018, neither the directors nor the five highest paid individuals received any emoluments from the Group as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office (2017: Nil).

8 Other income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants	**6,292**	6,968
Others	**–**	820
	6,292	7,788

9 Other gains/(losses), net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Fair value changes on financial assets at fair value through profit or loss (Note 17)	**3,008**	—
Investment income from financial assets at fair value through profit or loss	**—**	6,010
Net foreign exchange losses	**(465)**	(6,238)
Others	**(145)**	(66)
	2,398	(294)

10 Finance income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income from bank balances	**8,647**	1,692

11 Income tax expense

The income tax expense of the Group for the year ended 31 December 2018 is analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax	**17,343**	30,411
Deferred income tax (Note 20)	**3,693**	1,401
	21,036	31,812

11 Income tax expense (continued)

(a) Cayman Islands Income Tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax.

(b) British Virgin Islands ("BVI") Income tax

Pursuant to the rules and regulations of the BVI, the company incorporated in BVI is not subject to any income tax.

(c) Hong Kong Profits Tax

Hong Kong profits tax rate is 16.5%. No Hong Kong profits tax was provided for as there was no estimated assessable profit that was subject to Hong Kong profits tax for year ended 31 December 2018 (2017: Nil).

(d) PRC Enterprise Income Tax ("EIT")

The income tax provision of the Group in respect of its operations in the PRC was calculated at the tax rate of 25% on the assessable profits for the year ended 31 December 2018, based on the existing legislation, interpretations and practices in respect thereof.

Youmin Networks, Shanghai Binjie Networks Technology Co., Ltd. ("Binjie Networks"), Shanghai Langxianjing Network Technology Co., Ltd. ("Shanghai Langxianjing"), Shanghai Yiguo Network Technology Co., Ltd. ("Yiguo Networks") and Shanghai Feimiao Networks Technology Co., Ltd. ("Feimiao Networks") were accredited as a "software enterprise" under the relevant PRC laws and regulations. They are exempt from EIT for two years, followed by a 50% reduction in the applicable tax rates for the next three years, commencing from the first year of profitable operation after offsetting tax losses generating from prior years (the "tax holiday").

Youmin Networks started to enjoy the 0% preferential tax rate for two years beginning from 2015, followed by 50% reduction in the applicable tax rates for the next three years. Youmin Networks was not entitled to the 50% reduction in tax rate starting from 2017 because its research and development expenditure was lower than the benchmark of a "software enterprise". As a result, management applied 25% in calculating its EIT for the year ended 31 December 2018 (2017: 25%).

Binjie Networks was exempt from EIT for two years beginning from 2017, followed by 50% reduction in the applicable tax rates for the next three years, since it has made profit in 2017.

11 Income tax expense (continued)

(d) PRC Enterprise Income Tax ("EIT") (continued)

Shanghai Langxianjing, Yiguo Networks and Feimiao Networks were in accumulated tax loss positions as at 31 December 2018, therefore the respective tax holiday had not commenced as at 31 December 2018.

Guangzhou Miyuan Networks Technology Co., Ltd. ("Miyuan Networks") was qualified as "High and New Technology Enterprises" ("HNTEs") under the EIT Law since 2016. Accordingly, it was entitled to a preferential income tax rate of 15% for a 3-year period. The applicable tax rate was 15% for the year ended 31 December 2018.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC, enterprises engaging in research and development activities are entitled to claim 150% of their research and development expenses when determining their assessable profits for that year ("Super Deduction"). The Super Deduction amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018. The Group has made its best estimate for the Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits for the year ended 31 December 2018.

(e) PRC Withholding Tax ("WHT")

According to the applicable the PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after 1 January 2008 are generally subject to a 10% WHT. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The Group has undistributed earnings of RMB402,659,000 (2017: RMB356,466,000) which, if paid out as dividends, would be subject to tax in the hands of the recipient. No deferred tax liability has been recognised for WHT as the Group does not have any plan to require its PRC subsidiaries to distribute their retained earnings and intends to retain them to operate and expand its business in the PRC.

11 Income tax expense (continued)

(e) PRC Withholding Tax ("WHT") (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profit of the consolidated entities as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**176,631**	272,604
Tax calculated at statutory income tax rates applicable to profit of the consolidated entities in their respective jurisdictions	**45,207**	68,151
Tax effects of:		
Preferential income tax rates applicable to certain subsidiaries	**(38,686)**	(36,157)
Super Deduction in respect of research and development expenses	**(299)**	(1,758)
Tax losses and timing differences for which no deferred income tax was recognised	**476**	1,113
Share-based compensation	**15,598**	—
Others	**(1,260)**	463
Income tax expense	**21,036**	31,812

12 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to owners of the Company by the weighted average number of outstanding ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	155,595	240,792
Weighted average number of outstanding ordinary shares (Note)	1,670,276,028	1,425,000,000
Basic earnings per share (in RMB/share)	0.0932	0.1690

Note: The weighted average number of ordinary shares for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation.

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

For the year ended 31 December 2018, the Company's dilutive potential ordinary shares included unvested RSUs granted to employees under the RSU Scheme (2017: Nil) (Note 27). No adjustment is made to earnings (numerator).

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	155,595	240,792
Weighted average number of outstanding ordinary shares	1,670,276,028	1,425,000,000
Adjustments for unvested RSUs	6,592,598	—
Weighted average number of ordinary shares for the calculation of diluted EPS	1,676,868,626	1,425,000,000
Diluted earnings per share (in RMB/share)	0.0928	0.1690

13 Dividends

No dividends have been paid or declared by the Company during the year ended 31 December 2018.

Pursuant to the resolutions of the shareholders' meetings held on 22 December 2017, dividend of RMB55,000,000 was approved and paid by Youmin Networks to its then equity holders.

14 Property and equipment

	Services and other equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2018				
Cost	3,196	7,178	2,968	13,342
Accumulated depreciation	(1,600)	(1,595)	(866)	(4,061)
Net book amount	1,596	5,583	2,102	9,281
Year ended 31 December 2018				
Opening net book amount	1,596	5,583	2,102	9,281
Additions	2,513	2,309	1,416	6,238
Depreciation charge	(1,069)	(1,891)	(807)	(3,767)
Closing net book amount	3,040	6,001	2,711	11,752
At 31 December 2018				
Cost	5,709	9,487	4,384	19,580
Accumulated depreciation	(2,669)	(3,486)	(1,673)	(7,828)
Net book amount	3,040	6,001	2,711	11,752
At 1 January 2017				
Cost	2,376	2,183	1,499	6,058
Accumulated depreciation	(832)	(513)	(502)	(1,847)
Net book amount	1,544	1,670	997	4,211
Year ended 31 December 2017				
Opening net book amount	1,544	1,670	997	4,211
Additions	820	5,372	1,469	7,661
Disposals	—	(339)	—	(339)
Depreciation charge	(768)	(1,120)	(364)	(2,252)
Closing net book amount	1,596	5,583	2,102	9,281
At 31 December 2017				
Cost	3,196	7,178	2,968	13,342
Accumulated depreciation	(1,600)	(1,595)	(866)	(4,061)
Net book amount	1,596	5,583	2,102	9,281

14 Property and equipment (continued)

Depreciation charges were expensed in the following categories in the consolidated statements of comprehensive income:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of revenue	1,414	1,023
Selling and marketing expenses	366	183
Administrative expenses	1,270	394
Research and development expenses	717	652
	3,767	2,252

15 Intangible assets

	Licenses	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2018			
Cost	5,751	–	5,751
Accumulated amortisation	(4,253)	–	(4,253)
Net book amount	1,498	–	1,498
Year ended 31 December 2018			
Opening net book amount	1,498	–	1,498
Additions	5,508	916	6,424
Amortisation charge	(2,273)	(33)	(2,306)
Closing net book amount	4,733	883	5,616
At 31 December 2018			
Cost	5,508	916	6,424
Accumulated amortisation	(775)	(33)	(808)
Net book amount	4,733	883	5,616

15 Intangible assets (continued)

	Licenses RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017			
Cost	5,751	—	5,751
Accumulated amortisation	(2,083)	—	(2,083)
Net book amount	3,668	—	3,668
Year ended 31 December 2017			
Opening net book amount	3,668	—	3,668
Amortisation charge	(2,170)	—	(2,170)
Closing net book amount	1,498	—	1,498
At 31 December 2017			
Cost	5,751	—	5,751
Accumulated amortisation	(4,253)	—	(4,253)
Net book amount	1,498	—	1,498

Amortisation charge of licenses was offset against the revenue and amortisation charge of other intangible assets was recognised in administrative expenses for the year ended 31 December 2018.

16 Financial instruments by categories

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at fair value through other comprehensive income	**1,200**	11,200
Financial assets at fair value through profit or loss	**406,601**	—
Financial assets at amortised cost		
— Trade and other receivables (excluding prepayments and input value-added tax to be deducted)	**180,573**	165,774
— Cash and cash equivalents	**831,216**	573,761
	1,419,590	750,735

16 Financial instruments by categories (continued)

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Financial liabilities at amortised cost		
Trade and other payables and accruals (excluding salary and staff welfare payables and taxes payable)	77,895	126,148

17 Financial assets at fair value through profit or loss

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	—	12,000
Additions	397,789	1,060,333
Disposals	—	(1,072,333)
Changes in fair value	3,008	—
Currency translation differences	5,804	—
At the end of the year	406,601	—
Included in:		
Unlisted wealth management products (Note (a))	397,301	—
Investments in private companies	9,300	—
	406,601	—
Included in:		
Non-current assets	97,368	—
Current assets	309,233	—
	406,601	—

The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair value are reflected in profit or loss.

(a) Unlisted wealth management products issued by funds with the expected return rate ranging from 1.5% to 5%.

18 Financial assets at fair value through other comprehensive income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	**11,200**	1,200
Additions	**—**	10,000
Changes in fair value	**(10,000)**	—
At the end of the year	**1,200**	11,200

The Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair value are reflected in other comprehensive income.

19 Prepayments and other receivables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Included in non-current assets		
Prepayments for purchase of licenses	**25,852**	16,734
Rental and other deposits	**1,116**	683
	26,968	17,417
Included in current assets		
Prepayments for promotion expenses	**48,390**	37,548
Prepayments to game developers	**28,073**	1,400
Rental and other deposits	**6,855**	4,799
Input value-added tax to be deducted	**3,295**	8,977
Other receivables	**8,842**	2,577
	95,455	55,301
Prepayments and other receivables	**122,423**	72,718
Less: provision for impairment	**(7,453)**	—
	114,970	72,718

The carrying amounts of prepayments and other receivables were primarily denominated in RMB and approximated their fair values due to their short maturity. For the year ended 31 December 2018, provision for impairment of prepayments amounted to RMB7,453,000 (2017: Nil) and there was no provision for impairment of other receivables (2017: Nil).

20 Deferred income tax

(i) Deferred tax assets

	As at 31 December 2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
Contract liabilities	**35,964**	43,689
Provisions and others	**6,234**	2,432
Total deferred tax assets	**42,198**	46,121
Set-off of deferred tax liabilities	**(14,869)**	(17,599)
Net deferred tax assets	**27,329**	28,522

Movements	Contract liabilities RMB'000	Provisions and others RMB'000	Total RMB'000
At 1 January 2017	47,859	6	47,865
Recognised in profit or loss	(4,170)	2,426	(1,744)
At 31 December 2017	43,689	2,432	46,121
Recognised in profit or loss	(7,725)	1,302	(6,423)
Recognised in other comprehensive income	—	2,500	2,500
At 31 December 2018	**35,964**	**6,234**	**42,198**

(ii) Deferred tax liabilities

	As at 31 December 2018 RMB'000	2017 RMB'000
The balance comprises temporary differences attributable to:		
Contract costs	**14,869**	17,599
Total deferred tax liabilities	**14,869**	17,599
Set-off of deferred tax assets	**(14,869)**	(17,599)
Net deferred tax liabilities	**—**	—

20 Deferred income tax (continued)

(ii) Deferred tax liabilities (continued)

Movements	Contract acquisition costs RMB'000	Total RMB'000
At 1 January 2017	17,942	17,942
Recognised in profit or loss	(343)	(343)
At 31 December 2017	17,599	17,599
Recognised in profit or loss	(2,730)	(2,730)
At 31 December 2018	**14,869**	**14,869**

(iii) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realization of the related tax benefits through future taxable profits is probable. As at 31 December 2018, the Group did not recognise deferred income tax assets of RMB1,351,000 (2017: RMB875,000) in respect of losses amounting to RMB5,404,000 (2017: RMB3,500,000) that can be carried forward against future taxable income. These tax losses will expire from 2020 to 2023.

21 Trade receivables

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Third parties (Note (a))	**167,702**	161,499
Less: provision for impairment (Note (b))	**(3,942)**	(3,784)
	163,760	157,715

(a) Trade receivables are primarily due from Platforms and payment channels, which collect the proceeds from sales of in-game virtual items on the Group's behalf. The credit terms of trade receivables agreed with Platforms and payment channels are 30–90 days and 0–30 days, respectively.

21 Trade receivables (continued)

(a) (continued)

Aging analysis based on recognition date of the gross trade receivables as at 31 December 2018 is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Up to 1 month	61,224	64,017
1 to 3 months	76,372	64,632
3 to 6 months	22,189	24,203
6 months to 1 year	5,790	6,270
Over 1 year	2,127	2,377
	167,702	161,499

(b) As at 31 December 2018, trade receivables of RMB3,942,000 were impaired (2017: RMB3,784,000). Movements on the Group's provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At the beginning of the year	3,784	2,149
Provision for impairment	158	1,635
At the end of the year	3,942	3,784

The provision for impairment of trade receivables have been included in "administrative expenses" in the consolidated statements of comprehensive income.

21 Trade receivables (continued)

(b) (continued)

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The provision is determined as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Expected loss rate	**2.4%**	2.3%
Gross carrying amount	**167,702**	161,499
Loss allowance provision	**3,942**	3,784

(c) The carrying amount of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**142,998**	110,498
USD	**20,762**	47,217
	163,760	157,715

(d) As at 31 December 2018, the fair value of trade receivables approximated their carrying amounts. The Group did not hold any collateral as security.

22 Contract costs and liabilities

(a) The Group recognised the following revenue-related contract costs and liabilities:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contract costs:		
Costs to obtain contracts for game publishing	**59,980**	70,394
Contract liabilities:		
Game publishing	**144,989**	174,757

(i) Significant changes in contract costs and liabilities

Contract costs are mainly related to contract acquisition costs, which primarily consist of unamortised commissions charged by the Platforms and third party game programmers.

Contract liabilities primarily consists of the unamortised revenue from sales of virtual items for mobile games, where there is still an implied obligation to be fulfilled by the Group over time.

The decreased of contract cost and contract liabilities is in line with the decrease in revenue and cost of revenue.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the amount of revenue recognised in the consolidated statements of comprehensive income relating to contract liabilities brought forward:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year		
Game publishing	**174,757**	194,525

22 Contract costs and liabilities (continued)

(a) (continued)

(iii) Assets recognised from contract acquisition costs

The Group recognises assets in relation to contract acquisition costs. This is presented as contract costs in the consolidated balance sheets.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets recognised from contract acquisition costs for game publishing	**59,980**	70,394

The Group recognises contract costs in relation to commissions charged by the Platforms and game programmers, which meet contract acquisition cost criteria when the Group views the game players as its customer and that is incremental cost of acquiring a customer contract. They are capitalised as contract acquisition costs and amortised over the Player Relationship Period, which is consistent with the pattern of recognition of the associated revenue. The Group had no impairment losses recognised on any contract costs.

23 Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash at bank and in hand	639,473	573,761
Cash equivalents at other financial institutions (Note a)	191,743	—
Cash and cash equivalents	831,216	573,761

(a) Cash equivalents mainly comprise securities accounts for shares buyback, which can be redeemed at any time.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
HKD	383,997	—
RMB	300,064	498,995
USD	147,155	74,766
	831,216	573,761

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

24 Share capital and premium

	Number of ordinary shares	Nominal value of ordinary shares USD'000
Authorised:		
Ordinary shares upon incorporation (Note a)	1,000,000,000	50
Effect of share subdivision (Note c)	9,000,000,000	—
As at 31 December 2018	10,000,000,000	50

	Number of ordinary shares	Nominal value of ordinary shares USD'000	Equivalent nominal value of ordinary shares RMB'000	Share premium RMB'000
Issued:				
Ordinary shares issued upon incorporation (Note a)	95,000,000	5	32	—
Newly issued ordinary shares on 16 March 2018 (Note b)	5,000,000	—	—	—
Effect of share subdivision (Note c)	900,000,000	—	—	—
Newly issued ordinary shares on 22 March 2018 (Note d)	500,000,000	3	16	—
Issuance of new shares upon IPO (Note e)	500,000,000	3	17	822,189
Repurchase and cancellation of ordinary shares (Note f)	(9,918,000)	—	—	(27,499)
As at 31 December 2018	1,990,082,000	11	65	794,690

(a) The Company was incorporated on 9 January 2018 with an authorised share capital of USD50,000 divided into 1,000,000,000 ordinary shares of USD0.00005 each. On the same date, 95,000,000 ordinary shares were issued at par value.

24 Share capital and premium (continued)

(b) On 28 February 2018, the Company's shareholders approved and adopted a RSU Scheme and the Company has appointed Core Trust Company Limited as the trustee (the "Trustee") to assist with the administration of the RSU Scheme and Super Fleets Limited, a wholly-owned subsidiary of the Trustee, as nominee (the "Nominee"). On 16 March 2018, the Board of the Company approved a new issuance of 5,000,000 ordinary shares to the Super Fleets Limited.

(c) On 22 March 2018, each share of USD0.00005 was sub-divided into 10 shares of a par value of USD0.000005 each. Upon completion of the sub-division, the Company's authorised and issued ordinary shares are 10,000,000,000 shares and 1,000,000,000 shares, respectively.

(d) On 22 March 2018, the Company allotted and issued 500,000,000 ordinary shares to the then existing shareholders at par value. Upon completion of the allotment and issuance, the Company's issued shares increased to 1,500,000,000, of which 75,000,000 shares held by Super Fleets Limited were treasury shares and 1,425,000,000 shares were outstanding ordinary shares.

(e) Upon completion of the IPO, the Company issued 500,000,000 new ordinary shares for cash consideration of HKD2.07 each, and raised gross proceeds of approximately HKD1,035,000,000 (equivalent to RMB879,957,000). Share capital increased by approximately RMB17,000 and share premium arising from the issuance was approximately RMB822,189,000, net of the share issuance costs. The share issuance costs mainly included underwriting commissions, lawyers' fees, reporting accountant's fees and other related costs which were incremental costs directly attributable to the issuance of the new shares. These costs amounting to RMB57,751,000 were treated as a deduction against the share premium.

(f) The Company's general meeting approved a share repurchase plan on 19 June 2018, pursuant to which the Company is allowed to repurchase a maximum of 200,000,000 ordinary shares, being 10% of the total number of issued shares immediately after the Listing. On 12 November 2018, the board of the Company announced to exercise its power to repurchase the Company's shares via on-market transaction. Up to 31 December 2018, the Company repurchased an aggregate of 18,278,000 shares at an average price of HKD1.71 for an aggregate consideration of HKD31,165,000 (equivalent to RMB27,499,000) under this share repurchase plan, among which 9,918,000 shares were cancelled on 24 December 2018 and 8,360,000 shares were cancelled on 21 January 2019.

25 Shares held for the RSU Scheme

The Company adopted the RSU Scheme to award shares to qualified grantees. Super Fleets Limited was set up as a special vehicle for the purpose of holding the ordinary shares allotted and issued by the Company. As the Company has the power to direct the relevant activities of Super Fleets Limited and can derive benefits from the contributions of the grantees, therefore, Super Fleets Limited is consolidated by the Company and the shares it held are presented as a deduction in equity as shares held for the RSU Scheme.

26 Reserves

	Statutory reserves RMB'000	Share-based compensation reserve RMB'000	Other reserves RMB'000	Total RMB'000
Balance at 1 January 2018	16,903	28,112	150,510	195,525
Shares repurchase from strategy investors (Note a)	—	—	(150,510)	(150,510)
Employee share-based compensation scheme (Note 27)	—	77,932	—	77,932
Ordinary shares allotted and issued for RSU scheme (Note 25)	—	2	—	2
Changes in fair value of financial assets at fair value through other comprehensive income (Note 18)	—	—	(10,000)	(10,000)
Tax effect on changes in fair value of financial assets at fair value through other comprehensive income	—	—	2,500	2,500
Currency translation differences (Note b)	—	—	26,575	26,575
Balance at 31 December 2018	16,903	106,046	19,075	142,024
Balance at 1 January 2017	11,066	28,112	15,510	54,688
Appropriation to statutory reserves (Note c)	5,837	—	—	5,837
Capital contribution from strategy investors (Note a)	—	—	135,000	135,000
Balance at 31 December 2017	16,903	28,112	150,510	195,525

26 Reserves (continued)

(a) On 12 January 2017, pursuant to a share purchase agreement entered into among Youmin Networks and its then equity holders, and Mr. Cai Wenhang ("Mr. Cai") and his investment vehicle, Zhuhai Aotuo Investment centre LLP ("Aotuo Investment") (collectively the "strategy investors"), the strategy investors subscribed for 4.5% newly issued paid-up capital of Youmin Networks at a cash consideration of RMB135,000,000. In the meantime, Mr. Liu transferred 3.5% of his equity interest in Youmin Networks to the strategy investors at a cash consideration of RMB105,000,000.

In January 2018, Youmin Networks repurchased from the strategy investors in respect of their equity interests in Youmin Networks at cash consideration of RMB263,816,000 in aggregate. Accordingly, RMB150,510,000 recognised as other reserves previously was transferred out and the difference amounting to RMB113,306,000 was charged against the retained earnings.

(b) Currency translation differences represent the difference arising from the translation of the financial statements of companies within the Group that have a functional currency different from the presentation currency of RMB for the financial statements of the Company and the Group.

(c) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of subsidiaries located in mainland China, it is required to appropriate 10% of the annual statutory net profits after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is no less than 25% of share capital. As at 31 December 2017, the balance of the statutory surplus reserve fund of all profitable subsidiaries had reached 50% of the share capital. The Group did not make any further appropriation for the year of 2018.

27 Share-based compensation

On 28 February 2018, the Company's shareholders approved the establishment of the RSU Scheme and the Company appointed Core Trust Company Limited as the trustee to assist with the administration of the RSU Scheme. Under the RSU Scheme, the maximum number of shares which may be granted is 75,000,000. During the year ended 31 December 2018, the Company granted 59,364,752 RSUs to certain directors and employees of the Group (collectively, the "Grantees") pursuant to the RSU Scheme, of which 36,000,000 shares were granted before the completion of IPO and 23,364,752 shares were granted after the completion of IPO.

27 Share-based compensation (continued)

Movements in the number of award shares for the year ended 31 December 2018 is as follows (after share subdivision):

	RSU Scheme Number of Shares
At 1 January 2018	–
Granted	59,364,752
Vested	(19,582,376)
At 31 December 2018	39,782,376

— RSUs granted before the completion of IPO

On 22 March 2018, the Company granted 36,000,000 RSUs to two directors and certain management. The awards include both service and performance conditions as below:

a) For vesting schedule of the RSUs granted to the two directors, 50% of the RSUs will be vested upon the completion of IPO, which is defined as performance condition for vesting, and the remaining 50% will be vested over the latter of (i) a two-year period, with one-half of the awards vesting annually or (ii) upon completion of IPO; and

b) For vesting schedule of the RSUs granted to certain management, one-third of the RSUs will be vested upon the completion of IPO, and the remaining two-thirds will be vested over the latter of (i) a two-year period, with one-half of the awards vesting annually or (ii) upon completion of IPO.

27 Share-based compensation (continued)

— RSUs granted before the completion of IPO (continued)

In determining the fair value of the RSUs granted before IPO, a discounted cash flow method ("DCF") under income approach is applied by the Company. DCF method of the income approach involves applying appropriate weighted average cost of capital, or WACC, to discount the future cash flows forecast, based on the Company's best estimates as of the grant date, to present value. The WACC was determined based on a consideration of the factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors. The weighted average fair value of RSUs granted on 22 March 2018 was RMB2.19. Key assumptions are set as below:

	RSU Scheme 22 March 2018
Discount rate	15.0%
Terminal growth rate	3.0%

— RSUs granted after the completion of IPO

The Company granted 9,164,752 RSUs to certain employees, 50% of the RSUs will be vested upon the grant date, and the remaining 50% will be vested over the two-year period. Additionally, the Company granted 14,200,000 RSUs to certain newly joined employees, which will be vested over the three-year period from the grant date.

The fair value of the awarded RSUs granted after IPO was determined based on the market price of the Company's shares at the respective grant date. The weighted average fair value of RSUs granted during the year ended 31 December 2018 was HKD2.42 per share (equivalent to approximately RMB2.12 per share).

The Group recognised share based compensation expenses amounting to RMB77,932,000 during the year ended 31 December 2018 (2017: Nil).

28 Trade payables

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Third parties	65,228	102,234

Trade payables primarily represent payments received from game players and to be reimbursed to the game developers. The credit terms of trade payables granted by the game developers are usually 30 to 90 days.

28 Trade payables (continued)

The aging analysis based on recognition date of trade payables as at 31 December 2018 is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Up to 1 month	**20,486**	20,324
1 to 3 months	**28,695**	42,261
3 to 6 months	**15,827**	39,641
Over 6 months	**220**	8
	65,228	102,234

Trade payables were denominated in RMB and the fair values of these balances approximated their carrying amounts at the reporting date.

29 Other payables and accruals

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Salary and staff welfare payables	**25,655**	16,110
Other taxes payables	**4,026**	24,311
Promotion fee payables	**3,070**	1,967
License fee payables	**2,500**	60
Listing expenses payable	**1,297**	5,746
Payables related to financial assets at fair value through other comprehensive income	**–**	10,000
Others	**5,800**	6,142
	42,348	64,336

Other payables and accruals were denominated in RMB and the fair values of these balances approximated their carrying amounts at the reporting date.

30 Cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**176,631**	272,604
Adjustments for:		
— Depreciation of property and equipment (Note 14)	**3,767**	2,252
— Loss on disposal of property and equipment	**—**	65
— Amortisation of intangible assets (Note 15)	**2,306**	2,170
— Finance income	**(8,647)**	(1,692)
— Fair value change on financial assets at fair value through profit or loss (Note 9)	**(3,008)**	—
— Investment income from financial assets at fair value through profit or loss (Note 9)	**—**	(6,010)
— Interest income received from short-term deposits	**—**	(820)
— Net foreign exchange losses	**1,893**	5,984
— Share-based compensation expenses (Note 27)	**77,932**	—
	250,874	274,553
Changes in operating assets and liabilities		
— Trade receivables	**(6,033)**	56,294
— Prepayments and other receivables	**(33,446)**	(19,630)
— Trade payables	**(37,012)**	(17,757)
— Other payables and accruals	**(12,176)**	16,706
— Contract costs	**10,421**	2,527
— Contract liabilities	**(29,784)**	(19,768)
Cash generated from operations	**142,844**	292,925

In the consolidated statements of cash flows, proceeds from sale of property and equipment comprise:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount (Note 14)	**—**	339
Loss on disposal of property and equipment	**—**	(65)
Proceeds from disposal of property and equipment	**—**	274

31 Significant related party transactions

(a) Key management personnel compensations

The compensations paid or payable to key management personnel (including Chief Executive Officer and other senior executives) for employee services are shown below:

	Year ended 31 December 2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	5,561	2,468
Pension costs — defined contribution plans	193	171
Social security costs, housing benefits and other employee benefits	233	206
Share-based compensation	16,650	—
	22,637	2,845

(b) Except as disclosed in Note 7 (Five highest paid individuals), Note 34 (Benefits and interests of directors), and Note 27 (Share-based compensation) to the consolidated financial statements, the Group had no other material transactions with related parties during the year ended 31 December 2018 (2017: Nil), and no other material balances with related parties as at 31 December 2018 (2017: Nil).

32 Commitments

(a) Capital commitments

As at 31 December 2018, the capital expenditure contracted but not provided for amounted to RMB18,750,000 (2017: Nil), which were related to acquisition of intangible assets and licensing arrangements.

(b) Operating lease commitments

The Group leases office buildings under non-cancellable operating lease agreements. The lease terms are between 2 years to 3 years, and majority of lease agreements are renewable at the end of the leases at market value.

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December 2018 RMB'000	2017 RMB'000
Not later than 1 year	5,570	4,659
Later than 1 year and not later than 2 years	341	2,697
	5,911	7,356

33 Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2018 (2017: Nil).

34 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The remuneration of each director and chief executive for the year ended 31 December 2018 is set out below:

Name	Salaries RMB'000	Other social security costs, housing benefits and other employee benefits RMB'000	Pension cost-defined contribution plans RMB'000	Other emoluments (ii) RMB'000	Total RMB'000
Executive directors					
Mr. Liu (chief executive)	846	39	32	–	917
Mr. Wu Junjie	780	39	32	–	851
Mr. Wang Zaicheng	1,031	39	32	8,325	9,427
Mr. Liu Zhanxi	1,031	39	32	8,325	9,427
Independent non-executive directors					
Mr. Guo Jingdou (Note i)	88	–	–	–	88
Ms. Yao Minru (Note i)	88	–	–	–	88
Mr. Du Geyang (Note i)	88	–	–	–	88
	3,952	156	128	16,650	20,886

(i) Appointed on 19 June 2018.

(ii) Other emoluments are related with the RSUs granted to directors, which are vested during the year. The estimated money value of vested RSUs is calculated as the difference between the market price of the shares on the day of vesting and the price paid, if any, for the shares.

34 Benefits and interests of directors (continued)

(a) Directors' and chief executive's emoluments (continued)

The remuneration of each director and chief executive for the year ended 31 December 2017 is set out below:

Name	Salaries	Other social security costs, housing benefits and other employee benefits	Pension cost-defined contribution plans	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Liu (chief executive)	361	37	31	—	429
Mr. Wu Junjie	361	37	31	—	429
Mr. Wang Zaicheng	501	37	31	—	569
Mr. Liu Zhanxi	385	21	18	—	424
	1,608	132	111	—	1,851

(b) Directors' retirement benefits

No retirement benefits were paid to or payable in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the Company or its subsidiary undertaking during the year ended 31 December 2018 (2017: Nil).

(c) Directors' termination benefits

During the year ended 31 December 2018, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

34 Benefits and interests of directors (continued)

(d) Consideration provided to third parties for making available directors' services

No consideration was provided to or receivable by third parties for making available directors' services subsisted at the end of or at any time during the year ended 31 December 2018 (2017: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors subsisted at the end of or at any time during the year ended 31 December 2018 (2017: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year ended 31 December 2018 (2017: Nil).

35 Subsequent events

There were no material subsequent events during the period from 31 December 2018 to the approval date of these financial statements by the Board of Directors on 28 March 2019.

36 Balance sheet and reserves movement of the Company

(a) Balance sheet of the Company

	As at 31 December 2018 RMB'000
ASSETS	
Non-current assets	
Investment in subsidiaries	4,191,636
Financial assets at fair value through profit or loss	88,068
Total non-current assets	4,279,704
Current assets	
Cash and cash equivalents	424,037
Amounts due from subsidiaries	4,883
Financial assets at fair value through profit or loss	309,233
Total current assets	738,153
Total assets	5,017,857
EQUITY AND LIABILITIES	
Equity	
Share capital	65
Share premium	794,690
Shares held for RSU Scheme	(2)
Reserves (Note b)	4,214,786
Retained earnings (Note b)	(542)
Total equity	5,008,997
Liabilities	
Current liabilities	
Amounts due to subsidiaries	8,860
Total liabilities	8,860
Total equity and liabilities	5,017,857

The balance sheet of the Company was approved by the Board of Directors on 28 March 2019 and was signed on its behalf.

Liu Jie
Director

Liu Zhanxi
Director

36 Balance sheet and reserves movement of the Company (continued)

(b) Reserves movement of the Company

	Reserves RMB'000	Retained earnings RMB'000
At 9 January 2018 (Incorporation date)	–	–
Loss for the year	–	(542)
Ordinary shares allotted and issued for the RSU Scheme	2	–
Shareholders' contribution arising from the reorganisation*	4,110,221	–
Employee share based compensation scheme	77,932	–
Currency translation differences	26,631	–
At 31 December 2018	4,214,786	(542)

* As part of the Reorganisation, the Company acquired interests in subsidiaries and assets and liabilities related to the Publishing Business from their registered equity holders. The fair value of shares issued to the equity holders is recorded as other reserve.

37 Subsidiaries

The Group's principal subsidiaries at 31 December 2018 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Place of incorporation/ nature of legal entity	Principal activities and place of operation	Particulars of issued/ paid-in capital	Proportion of ordinary shares directly/ indirectly held by the Group
FT Entertainment Limited	The BVI/Limited liability company	Investment holding/ the BVI	USD100	100%
FingerTango Interactive (HK) Limited	Hong Kong/Limited liability company	Investing Holding/ Hong Kong	HKD100	100%
FT WFOE	The PRC/Wholly foreign owned enterprise	Technical support and development services/the PRC	RMB15,000,000	100%
Youmin Networks	The PRC/Limited liability company	Internet culture operations/the PRC	RMB19,267,015	100%
Binjie Networks	The PRC/Limited liability company	Internet culture operations/the PRC	RMB10,000,000	100%
Guangzhou Langxianjing Networks Technology Co., Ltd.	The PRC/Limited liability company	Internet culture operations/the PRC	RMB1,000,000	100%
Feimiao Networks	The PRC/Limited liability company	Internet and software technology development and service/the PRC	RMB10,000,000	100%
Yiguo Networks	The PRC/Limited liability company	Internet and software technology development and service/the PRC	RMB10,000,000	100%
Shanghai Langxianjing	The PRC/Limited liability company	Internet and software technology development and service/the PRC	RMB10,000,000	100%

Glossary

"ACERY Holding"	ACERY Holding Limited, an exempted company incorporated in the BVI with limited liability on 8 January 2018 and wholly owned by Mr. Wu Junjie
"ARPG"	action role-playing games, which incorporate elements of action or action-adventure games and normally have combat systems
"ARPPU"	average revenue per monthly paying user, calculated by dividing total revenue during certain period by the number of average MPUs during the same period; average MPUs is the average of the aggregate number of paying users for our games in each month during a certain period
"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"Binyou Networks"	Shanghai Binyou Networks Technology Limited (上海繽遊科技有限公司), a limited liability company incorporated under the laws of the PRC on 16 March 2018 and a wholly-owned subsidiary of our Company
"Cayman Islands"	the Cayman Islands
"China" or "PRC"	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
"Chairman"	Chairman of the Board
"Company", "the Company", "we" or "us"	FingerTango Inc. (指尖悦動控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 9 January 2018
"Contractual Arrangement(s)"	the series of contractual arrangements entered into by, among others, Binyou Networks, the Registered Shareholders and Youmin Networks, details of which are set out in the section headed "Contractual Arrangements" in the Prospectus
"Corporate Governance Code"	the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules
"Director(s)"	the director(s) of our Company
"Group" or "the Group"	our Company, its subsidiaries and the PRC Operating Entities
"Hong Kong dollar(s)", "HK dollar(s)" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited

"IFRS(s)"	International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standard Board
"KW Technology"	KW Technology Holding Limited, an exempted company incorporated in the BVI on 8 January 2018 with limited liability, which was established and wholly-owned by Mr. Wang Zaicheng
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	The date which dealings in Shares first commence on the Stock Exchange, i.e. 12 July 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"LJ Technology"	LJ Technology Holding Limited, an exempted company incorporated in the BVI on 8 January 2018 with limited liability, which was established and wholly-owned by Mr. Liu Jie
"LNN Holding"	LNN Holding Limited, an exempted company incorporated in the BVI on 8 January 2018 with limited liability, which was established and wholly-owned by Ms. Li Nini
"Prospectus"	the prospectus dated 12 July 2018 issued by the Company
"Renminbi" or "RMB"	Renminbi yuan, the lawful currency of the PRC
"Registered Shareholders"	direct shareholders of Youmin Networks, being Mr. Liu Jie, Mr. Zhu Yanbin, Mr. Wu Junjie, Zhuhai Sangu and Zhuhai Jugu
"RSU(s)"	restricted share units or any one of them
"RUS Scheme"	The RSU scheme approved and conditionally adopted by the Shareholders on 28 February 2018, the principal terms of which are set out in "Statutory and General Information — D. RSU Scheme and Share Option Scheme — 1. RUS Scheme" in Appendix IV to the Prospectus
"Securities and Future Ordinance" or "SFO"	the Securities and Futures Ordinance of Hong Kong (chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of our Company with a par value of US$0.000005 each
"Shareholder(s)"	holder(s) of our Share(s)
"Share Option Scheme"	the share option scheme adopted by our Company on 19 June 2018 which complies with the provisions of Chapter 17 of the Listing Rules

Glossary

"SLG"	simulation games, which are generally designed to closely simulate aspects of a real or fictional reality
"Youmin Networks"	Shanghai Youmin Networks Technology Limited (上海遊民網絡科技有限公司), a limited liability company incorporated under the laws of the PRC on 3 December 2013 and one of our PRC Operating Entities
"ZYB Holding"	ZBY Holing Limited, an exempted company incorporated in the BVI on 8 January 2018 with limited liability, which was established and wholly-owned by Mr. Zhu Yanbin